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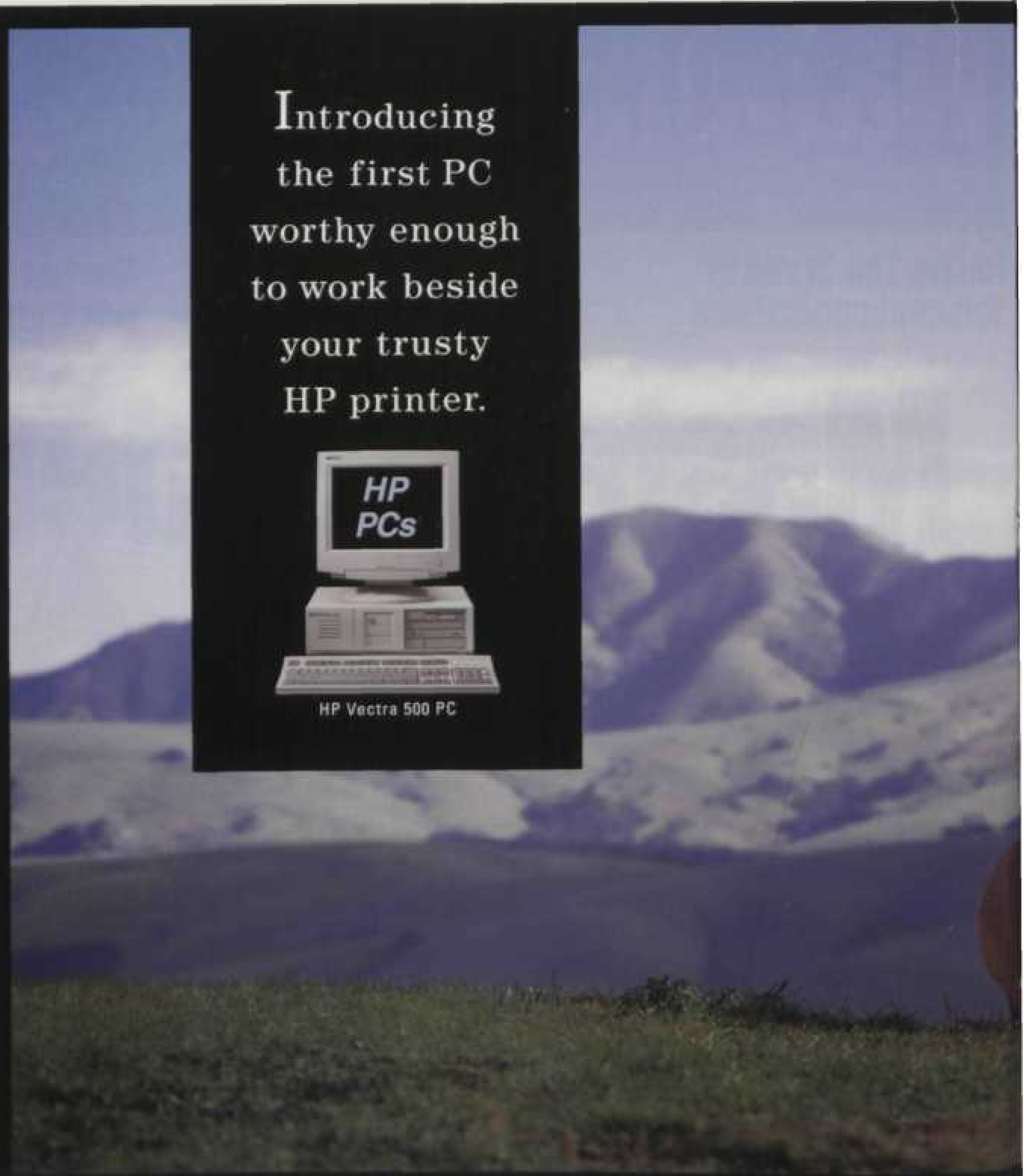
Market Outlook For The Autumn

Master Builders

Published By
U.S. Chamber of Commerce

AUGUST 1996 · $2.50

Seven renowned entrepreneurs tell how they made their businesses dazzle—and how others can do the same.



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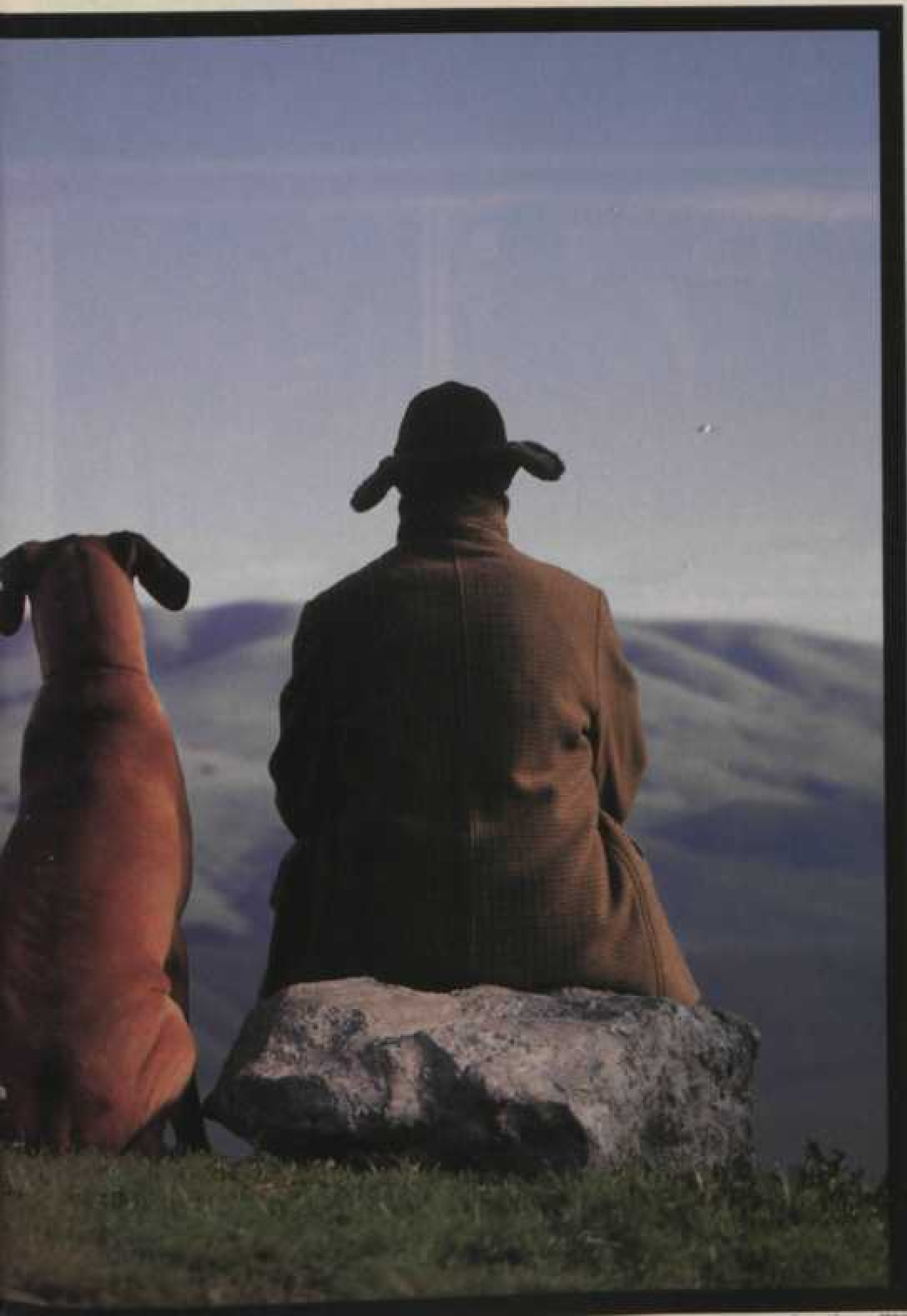

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HP PCs For Small Business

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PHOTO: T. MICHAEL KEZA

Belief in oneself *is among the keys to achievement that are common to business founders such as Herman J. Russell. His daughter, Donata Major, and son H. Jerome Russell help him run his construction and airport-concessions company. Cover Story, Page 18.*

PHOTO: ©SAL DIMARCO JR.—BLACK STAR

Generation Xers *such as clothing maker Jennifer Barclay start businesses fearlessly. Entrepreneurship, Page 49.*

VOL. 84, NO. 8

Editor's Note

PHOTO: ©BART BARTHOLOMEW

Outlet malls *are opening up to small firms such as Mitchell Goldstone's 30 Minute Photos Etc. Retailing, Page 45.*

DEPARTMENTS

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Events That Move Us

Have we entered some kind of time warp? I wondered this recently as the information spread about the burning of black churches in the South. The headlines wouldn't have been so hard to believe 25 or 30 years ago—but today?

I wondered how the congregations must feel and where they would worship. I thought of all the hard-earned money that had been contributed by individuals over many years to build those churches and wondered what it must be like to face having to rebuild.

My thoughts jumped to Herman Russell in Atlanta—one of seven entrepreneurs featured in our cover story. I wondered how this successful businessman, who had gained the determination to excel partly as a result of the discrimination he experienced in his youth, viewed these current events.

Did he, like me, see them as hard to believe in 1996, or simply as a price being paid by the parishioners on their way to something better? Surely he could identify with such a transition.

For that matter, all seven entrepreneurs featured in our cover story, written by Senior Editor Michael Barrier, could identify with the notion of transition. They all made a major one—from founders of small companies to owners of bigger, highly successful businesses.

Barrier sought to discover what had sparked their entrepreneurial drive and what had sustained them and their companies through their transitions. We believe the insights and determination of these "master builders" will provide encouragement for the entrepreneurs who hope to make such leaps themselves. The story, "Entrepreneurs Who Excel," begins on Page 18.

And for the churchless parishioners, we offer encouragement as well.

While our cover story looks at the present partly by reviewing the past, our technology feature provides a glimpse of the future. Senior Writer Tim McCollum's article, "New Horizons In Communications," beginning on Page 33, is designed to help prepare you and your company for tomorrow by understanding what's going on in telecommunications today.

Mary Y. McElveen

Mary Y. McElveen
Editor

Letters

Temp-To-Perm Approach Has Its Drawbacks

Your June cover story, "Hiring The Right People," offered some very pertinent and helpful information and advice for small businesses. Of particular interest was the accompanying article "An Extended Tryout Option," about temp-to-perm hiring. While it was thorough in covering the apparent benefits of the temp-to-perm scenario, it might have been of greater value to your readers had it also discussed some of the less-positive aspects of this hiring method.

The instant gratification provided by a temp-to-perm program is so strong that employers rarely look past its surface appeal to question its integrity. Upon closer examination, is this really a good method for hiring permanent employees? More specifically, does this approach result in the best possible employee for the position and for your business?

The answer is clear when one compares

the temp-to-perm approach with the conventional, time-proven recruiting approach.

For example, the conventional hiring process is a progressive, orderly evaluation based on specific qualifications. A group of candidates is selected and subjected to a variety of evaluation techniques to identify the individual best suited for the position and for the organizational culture.

In contrast, the temp-to-perm approach presents one candidate at a time for evaluation. Typically, that evaluation is cursory and subjective. Thorough upfront evaluations are considered unnecessary because of the "trial run" feature of the program. The person either works out or he doesn't.

When used as a method for hiring permanent employees, the temp-to-perm approach simply lacks the integrity to produce top-quality employees consistently.

Keep temporary and permanent employee needs separate—their widely divergent requirements just don't mix.

Fred Kurtz
Manager, Human Resources Division
Chojnacki & Associates
Houston

Effective Interviewing

"Hiring The Right People" gave great tips on how to improve hiring. However, my research has shown that most business owners and managers don't have the time or skill to interview applicants effectively.

Our quick, four-step solution entails:

- Using a "job-analysis checklist" of the six to nine make-or-break talents that you absolutely need in a new employee.
- Devising a simple "interview guide form" on which you rate each applicant on the six to nine key talents.
- Classifying each candidate as either a "definite hire" or a "don't hire."
- Never hiring anyone who is not a "definite hire."

Research has also shown that testing applicants—in addition to interviewing—further boosts your chances of hiring the best people.

Michael W. Mercer
The Mercer Group, Inc.
Barrington, Ill.

A Taxing Situation For Foreign Citizens

In "Putting Trusts In Your Estate Planning" [Small Business Financial Adviser, June], it is stated that "under the marital deduction, a spouse can transfer an unlimited amount of property free of tax to his or her spouse, provided the spouse is an American citizen."

What is the position of the surviving spouse if he or she is not an American citizen?

J.T. McGuire
Fullerton, Calif.

[Editor's Note: If the surviving spouse is not a U.S. citizen, the marital deduction will not be allowed, and, in effect, the amount given to the surviving spouse will be subject to estate

tax. The impact of this tax can be delayed, however, by placing the amount for the surviving spouse in a "qualified domestic trust." An estate-tax expert can furnish more details on such an arrangement.]

Raising A Red Flag For Businesses' Rights

A few days before Memorial Day, I was able to embarrass the Long Hill (N.J.) Township Committee into rescinding the portion of its sign ordinance that banned commercial properties from flying more than one flag of a certain type, including the American flag.

The fact remains, however, that small businesses around the nation are forced to comply with municipal regulations that have no bearing on the health, welfare, and morals of the public. Three local businesses were summoned for having a simple "Open" sign within their windows, another violation of the sign ordinance. This matter is going to court. But the question is: Who is looking out for the constitutional rights of business owners?

Joe DuPont
Past President
Passaic Valley Chamber of Commerce
Long Hill, N.J.

Union Contributions Go Against The Grain

Your editorial on the disconnect between the AFL-CIO's leadership and its members ["The AFL-CIO's Out-Of-Touch Campaign," June] should raise serious concerns for union members about their Washington leadership.

Recent analysis by the Alexis de Tocqueville Institution on the contribution patterns of the AFL-CIO and the National Education Association should raise similar concerns among members of both those union groups.

Through the end of April—half a year before the election—the two organizations combined had already contributed more than $850,000 to 1996 congressional candidates.

According to our research, both are supporting almost exclusively candidates who want to increase the size of government, and they are working against only those candidates who have voted to cut the size of government.

I suspect that many union members, if not most of them, would be disappointed to learn that their Washington offices are spending hundreds of thousands of their dollars to promote members of Congress who have voted for bigger government and to stop members who have voted to modestly trim the federal government's sails.

John E. Berthoud
Vice President
Alexis de Tocqueville Institution
Arlington, Va.

Well-Run Firms Give Salespeople Their Due

Regarding "Linking Payday To Cash In Hand" [May], I can understand not paying salespeople upon booking, since any number of situations can arise to void or alter a sale. But once the company accepts the order, has its credit department check or analyze the creditworthiness of the prospect, and ships to and invoices the customer, why shouldn't the salesperson get paid in some reasonable time frame, such as the 20th of the month after the invoice is sent out?

The accounting manager gets paid every payday, as do the manufacturing manager, the customer-service people, the shop people, and the president. Why not the salesperson?

Our company markets through a network of independent, commissioned sales agents who, if they don't sell, don't eat. I view these agents as an extension of the company, not as a necessary evil I have to put up with.

A profitable, well-run company factors all of the variables into the equation and should not have to improve its cash position on the backs of its most valuable assets.

John A. Gavin
President
Stranco, Inc.
Michigan City, Ind.

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ENTREPRENEUR'S NOTEBOOK

Nurturing Workers So They'll Stay On Board

By Donald Dann

There's a truism in business that it's easier to succeed by maintaining a solid customer base than it is by constantly having to find new customers. And the same can be said of a firm's employees.

All the reasons for building and maintaining client relationships apply to employee relationships. By maintaining a stable employee base, you avoid the high costs of the revolving-door approach to hiring and managing workers—everything from the "hard" costs of advertising for positions and training new employees to the "soft" costs of lost time and productivity while finding new hires and bringing them up to speed.

A tenured staff also offers the value of experience and knowledge of both your business and its clients.

There is, however, an inherent challenge in the long-term-employee approach, especially for small businesses with few positions offering possibilities for advancement. That challenge is keeping your veteran employees motivated and committed to their jobs.

It is a challenge I face daily as the managing member of Davis Dann Levin LLC, a life-insurance sales-and-marketing firm in Highland Park, Ill. About half of our 20 employees have been with us 15 years or more, and others have at least five years with the company, which has annual revenues of $4 million.

Two key elements to successful employee relationships are the type of people you hire and the due diligence you perform before bringing them in.

Like many entrepreneurial firms, we look for self-motivated and self-starting individuals, sometimes valuing those traits above even experience. While you can teach someone the ins and outs of a business, you can't teach them self-motivation, determination, and resourcefulness.

But finding an individual with those qualities can take time. It's not uncommon for us to consider a lot of candidates and to bring in several of those people for six or more interviews before we make a decision on whom to hire.

A daily challenge *for Donald Dann is motivating employees who have little opportunity for advancement.*

Keeping self-starters who are enthusiastic about their jobs means creating an environment in which employees feel empowered to use their natural motivation, whether they have been with the company for one year or 20.

Giving each employee some latitude in how he or she does the job creates a great proprietary sense among your employees. On their own, they look for ways of doing a better job, making the office more efficient, and just generally making the company better.

Additionally, we offer regular on-site training meetings for the entire staff on a variety of subjects, and we encourage employees to continue their education.

We also spread cutting-edge industry training opportunities throughout the company, and we pay for successfully completed education and training courses that relate to the jobs of our employees.

Commitment and productivity should be paid back—literally.

We offer salary reviews every six months rather than annually to provide more frequent and tangible evidence that we value the individuals' commitment to the company.

And we don't forget the small things: lots of positive verbal reinforcement, working to correct problems by going forward rather than dwelling on past mistakes, flex time, birthday and holiday gifts, opportunities for everyone to enjoy incentive-plan travel bonuses, and many of the other things necessary to create an upbeat workplace.

And while our company's small size means there are inherent limitations for advancement, we encourage employees to tell us what they want from their jobs, and we help them get there—even if that means they eventually will leave our company.

In return, they understand that the challenges of today's business world mean that to maintain the kind of reputation, compensation, and work environment we have fostered, everyone has to pitch in and give their all.

In short, we have invested in our employees as valuable resources, and they, in turn, have developed a loyalty to the company—a win-win situation. NB

Donald Dann prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062-2000.

WHAT I LEARNED

Taking the necessary steps to maintain a stable employee base brings benefits for your workers and your business.

Dateline: Washington

Business news in brief from the nation's capital.

By Albert G. Holzinger

CONGRESSIONAL LEADERSHIP

Senate Majority Leader Lott Is A Friend Of Business

PHOTO: JOHN DURICKA—WIDE WORLD

The Senate's new majority leader, *Trent Lott of Mississippi, left, is joined at a news conference by Sens. Don Nickles of Oklahoma, center, who succeeded Lott as majority whip, and Alfonse M. D'Amato of New York, chairman of the National Republican Senatorial Committee.*

Based on votes cast during his 23-year congressional career, new Senate Majority Leader Trent Lott of Mississippi should prove to be at least as staunchly pro-business as his predecessor, Robert Dole of Kansas. Dole left the Senate after 35 years on June 11 to devote his full time and energy to his presidential candidacy.

Lott's 16 years of experience in the House before his election to the Senate in 1988 and his ties to key House leaders should serve him well in brokering legislative compromises with the House on business-backed measures.

Lott has been a close friend of both House Speaker Newt Gingrich of Georgia and House Majority Leader Dick Armey of Texas. Since the Republicans gained control of Congress in 1994, the House leaders and many rank-and-file GOP representatives have frequently chafed at the cautious instincts of the Senate.

Both Lott and Dole received 100 percent ratings from the U.S. Chamber of Commerce for their votes last year on issues important to business. Lott's career Chamber vote rating is 88 percent, and Dole's is 85. The American Conservative Union gave Lott and Dole 100 percent ratings last year. The AFL-CIO's political organization—COPE—and the liberal Americans for Democratic Action gave both senators zero ratings.

Lott frequently has shown his empathy for business's concerns by sharing his views and insights at Chamber events since taking office in 1973.

In a news conference following his June 12 election as majority leader by Senate Republicans, Lott confirmed that while "the torch has been passed today, the flame is the same. Our agenda [in the Senate for the remainder of the year] will be the same one that Bob Dole laid out for us."

Specifically, Lott said: "We do want to balance the budget by 2002. We are absolutely committed to that." More generally, he sounded other pro-business themes in calling for reductions in the size of the federal government, cutbacks in the growth of entitlement programs, and tax relief.

Those goals may be unreachable this year, with few legislative days remaining before Congress adjourns. The legislative session is expected to end in early October so lawmakers up for election Nov. 5 can return to their home states to campaign.

Much housekeeping remains to be done, including passage of the 13 appropriations bills required to keep the government running next fiscal year, which begins Oct. 1.

If the GOP keeps control of Congress following the elections, the pragmatic, 54-year-old Lott may be just the leader needed to reach accord with young House Republican firebrands on a variety of spending, tax, and other business-backed measures.

And the new No. 2 Republican leader in the Senate, Don Nickles of Oklahoma, who succeeded Lott as majority whip, could further business's goals as well. Nickles, 47, is a former businessman who was elected to the Senate in 1981. He serves on the key Senate Finance Committee, which has jurisdiction over tax and other matters important to business.

Following Dole's departure from the Senate, Lott also became a member of the Finance Committee. ■

FOR THE RECORD

■ **Business owners and employees** can now use the Internet to request records of their past earnings and estimates of their future Social Security benefits under a range of wage and retirement-age scenarios.

After verifying that the request has been made by the beneficiary, the U.S. Social Security Administration sends the record by mail. Individuals will soon have on-line access for viewing their records. (Records can still be obtained by completing a paper request form, which is available by calling 1-800-772-1213.)

The Internet address of the Social Security Administration on the World Wide Web is *http://www.ssa.gov.*

■ **Want to know the true cost of government** to the average American? According to Americans for Tax Reform (ATR), a national advocacy group based in Washington, the cost should be calculated this way: Add the compliance costs of federal, state, and local regulations to total federal, state, and local tax liabilities. That total, by the way, is estimated at \$3.38 trillion. By July 3, according to the ATR's measure, the average American will have earned enough in gross income this year to pay his or her share of government's tab.

Of the 366 days in leap year 1996, says ATR, the employed will spend 184.6 days working to support spending programs and regulatory compliance as follows: state and local programs and regulations, 51.2 days; federal regulations, 40.3; Social Security and Medicare, 31.4; national defense, 15.5; other federal spending programs, 32.1; and interest on the national debt, 14.1.

Managing Your Small Business

The right blend for candy sales; e-mail etiquette; a small firm's big image.

By Roberta Maynard

MARKETING

Two Targets Can Be Better Than One

PHOTO: ©CARL SHANEFF—MERCURY PICTURES

Japanese tourists *and local customers alike can watch the manufacturing process at Allan Ikawa's Big Island Candies, in Hilo, Hawaii.*

Targeting two often-disparate markets has proved to be a sweet strategy for Hawaiian candymaker Allan Ikawa. The president of Big Island Candies has, by design, the best of both worlds—steady business from local residents on the island of Hawaii as well as from tourists.

Catering to both groups protects against the vagaries of the marketplace and has helped boost the company's revenue to $6 million a year. When the value of the yen keeps Japanese tourists home, sales to Hawaiian customers keep business brisk. When the local economy slumps, the tourist trade buoys the business. Targeting two groups also gives Ikawa two peak selling periods—pre-Christmas months for local residents and January through March for tourists.

To tap the tourist market, Ikawa made connections with the 20 or so tour companies that arrange trips to the island and got the store listed on their itineraries. In season, the little shop, in a remote spot near Hilo's airport, may get 150 to 200 tourists a day.

To get local business, Ikawa had to overcome the preconception that a shop frequented by tourists must be expensive and exclusive. He did this by establishing his company in the community—getting involved in local activities such as high-school tournaments, for instance, and donating goods for various events. This strategy introduced the product to local people and made them feel that the store was not just for outsiders. Local residents account for a little over half of retail sales.

Through the years, Ikawa has often changed operations to accommodate both groups. When he discovered that Japanese prefer chocolates and macadamia nuts and that island residents prefer cookies, he arranged his store with candy on one side and cookies on the other to even out the traffic. When he learned that his Japanese customers would pass up buying something rather than wait in line, he increased the number of cash registers from two to five.

Understanding the Japanese tradition of frequent gift-giving—a tradition adopted by Hawaiians—has helped Ikawa sell to both groups. The tradition holds that the uniqueness of the gift or the difficulty in obtaining it increases its value. So, to create a mystique about his products, Ikawa doesn't sell them in Honolulu or elsewhere in the state.

Ikawa keeps up with changing customer preferences by conducting occasional surveys, using a list of 8,000 customer names he has collected since opening the store eight years ago. And he is working on a third target market: corporate sales. ■

COMMUNICATION

Minding Your E-mail Manners

With the use of electronic mail on the rise in offices, companies are learning that it's important to treat it as seriously as other forms of business communication. Doing so can help a company avoid embarrassment and maintain a professional image, says Barbara Pachter, a business communications trainer in Cherry Hill, N.J.

Here are Pachter's e-mail guidelines:

■ Don't contribute to e-mail overload. Respect other people's electronic space by sending messages only when necessary and only to those who need to see them.

■ Keep messages short. This shows respect for your reader's time. The guidelines are one page at most for a paper memo and one screen—about 25 lines—for e-mail.

■ Use short paragraphs to make the message easier to read.

■ Use a subject line to put emphasis on the topic, and for clearer communication, limit each message to one subject area.

■ Don't use all capital letters. They "shout" and are difficult to read.

■ Proofread every message. Because this is more difficult on screen than on paper, try reading out loud from the screen to catch your mistakes.

■ Remember that e-mail isn't always private. Don't send a message containing anything that would hurt someone's feelings or that you want to keep confidential. ■

CORPORATE IMAGE

A Company Is Only As Small As It Acts

PHOTO: ©TOM SALYER

Creating the image *of a much larger company helped PhoneCard Express co-founders David Redlich, left, and Matt Kuttler ring up an impressive list of clients.*

How does a two-person operation make itself look like a big player? That was the challenge faced two years ago by Matt Kuttler and David Redlich, co-founders of PhoneCard Express, which manufactures prepaid long-distance calling cards. The cards, imprinted with companies' logos, are used in sales campaigns, contests, and other promotions.

Even though Kuttler and Redlich's first client was the Home Box Office cable network, they found it difficult to parlay a single client into a substantial business and to create the image of a large company when it was just the two of them sharing an office with another small firm in Hollywood, Fla.

It didn't help that the two partners, both now 24, were fresh out of college.

Their solution was simply to look big and act big. First, they boosted their credibility by choosing a known, reliable company—Frontier Communications, based in Rochester, N.Y., and the fifth-largest long-distance phone company in the U.S.—to supply the telephone service.

For their promotional material, they spent what was required to get dynamic, quality graphics. Nor did they skimp on making contact with potential clients. When sending introductory material about their company, they always used an overnight delivery service. And they gave companies sample phone cards to give to clients.

"Our goal was to establish a very professional and corporate image," says Redlich. "We made sure the initial package would knock them off their feet."

They capitalized right away on their first big account by sending samples of the HBO card with unspent phone time to advertising agencies. And, taking their cue from much larger companies, they began writing and producing a newsletter, giving out discount coupons, and conducting customer surveys.

"The key to our success has been to develop a high corporate image, even if only on paper, and to provide better service than [customers] are expecting," says Kuttler. He expects 1996 revenues of $2.5 million. PhoneCard's clients include Nabisco, Clairol, and software maker Intuit. ■

TAXES

How Well Do You Know What Can Be Deducted?

Keeping up with changing benefits regulations is an everyday challenge. Is your company up to the task? Take this quiz from the American Management Association to test your knowledge in this area:

1. According to the Internal Revenue Service, which of the following are *de minimis* fringe benefits (those too insignificant to be dealt with judicially) and therefore are not taxable?

A. Season tickets to the theater or sporting events.

B. Free use of a company car to commute to work.

C. Use of an employer-owned hunting lodge for a weekend.

D. None of the above.

2. Which of the following is not a deductible business-meal expense?

A. Taxi fares to and from the restaurant.

B. The meal, if it costs more than $25.

C. The tip.

D. Parking fees.

3. A company is giving away door prizes at its holiday party. Which of the following gifts must be taxed under IRS regulations?

A. A $20 turkey or ham.

B. A $20 clock radio.

C. A $20 certificate for a dinner for two.

D. All of the above are fringe benefits that are not taxed.

Answers

1: D. All are taxable under the IRS definition of *de minimis* fringe benefits.

2: A. Taxi fares to and from a restaurant for a business meal are not deductible.

3: C. The dinner certificate is considered the same as cash and is taxed.

NB TIPS

Women In Business

An annual conference for women in business will be held Sept. 12 from 7:30 a.m. to 6:30 p.m. at the Navy Pier in Chicago. Sponsored by the Women's Business Development Center, a nonprofit group based in Chicago, the conference will include a buyers' mart and panel discussions on business issues. The cost, including three meals, is $110 for registration before Sept. 1 and $150 thereafter. For information, call the center at (312) 853-3477, Ext. 45.

Improving Supply Chains

Bose Corp.'s JIT II Education & Research Center, in Framingham, Mass., is sponsoring a seminar designed to help business owners learn more about transforming the supply chain for competitive advantage. The program will be held at the Sheraton Tara Hotel, also in Framingham, on Sept. 18 and 19. For a seminar brochure, call the center at (508) 766-4050. NB


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Technology And Tenacity

By Dan Hager

Deborah D. Dolman never had a technological bent and didn't even attend college. She always expected success, but she's surprised at how she has achieved it—through her own innovative technology.

Dolman is president and CEO of Dolman & Associates, Inc., of Lansing, Mich. Its patented voice-activated video system is transforming the field of court reporting and improving the way business videoconferencing is conducted.

As an entrepreneur, Dolman let others handle the technical development of the system. Her role was to supply her personal qualities of vision, resolve, and tenacity.

"I was extremely undercapitalized from the beginning," Dolman says, "but I told myself, 'I'm going to take my last penny if necessary to get this thing developed.' Now we've turned the corner."

As a young single mother she quit a dead-end secretarial job in her native Flint, Mich., to enroll in a court-reporting school in Detroit, 60 miles away. She commuted daily by bus and used every spare moment to improve her skills, including practicing on a portable stenograph during the trips. "I finished the two-year course in one year," she says.

She did reporting for five years through a special program of the state Department of Management and Budget until funding for the program ran out. Then, in 1979, she and a partner launched a court-reporting service, largely for private clients who had hearings before state regulators. She increasingly began thinking like an entrepreneur. "I realized I should be out getting more business instead of hitting the keys," Dolman says. "You have to have a knack for marketing to get big accounts."

Her marketing eye also noticed the growing judiciary interest in videotaped court reporting, a field that a firm in Kentucky was already entering. Wanting some of the action, she separated from her partner—who wasn't interested in branching into high technology—and formed her present corporation in 1988, eventually establishing Dolman Technologies as a product-development division within it.

Dolman located a sound engineer, Anthony Meredith—now her vice president for engineering—who was willing to give up a secure position with an electronics company to join her in 1991. In 1993 their new system won top honors in Michigan's annual New Product Award competition, which is sponsored by a consortium of business groups and state agencies.

The system provides courtrooms and hearing rooms with automated, multiple-camera audio/video records of proceedings. Each camera remains off until activated by the voice of the person on whom it is focused. Sound filtering neutralizes noises such as coughs or rustling papers so they don't activate the system. The result is a smooth record of speakers' statements. The audio can be typed into a written transcript if needed.

The advantages, according to Dolman, are that vocal nuances and body language become part of the permanent record, and accuracy is enhanced. And court-reporting costs are cut: Once a system is installed, a judge need only turn it on with the press of a button.

Not surprisingly, there has been resistance from traditional court reporters. "To them I'm a turncoat," Dolman says.

But the public sector's need to improve efficiency and cut costs is driving the move to video reporting. Dolman's system is now in courtrooms in Florida, Virginia, New Jersey, Utah, and California in addition to Michigan. Another judicial application is remote arraignments of prisoners, who remain in jails while linked with judges in courtrooms.

Dolman has also penetrated the videoconferencing market; the automated voice

A voice-activated video system *patented by Deborah D. Dolman's company is establishing a new kind of order in the court.*

activation eliminates camera operators—an important feature in circumstances that demand confidentiality—and provides timely image switching.

Dolman foresees sharp increases in sales to the private sector and a steady climb in judicial installations. "We're positioned for explosive growth," she says. She projects annual revenues of $7 million to $10 million in five years.

Her new challenge is to manage rapid expansion. "The key is to surround yourself with the right team," Dolman says. That team currently has 23 people, including seven on the engineering side and five court reporters continuing the conventional aspect of the business.

The old challenge, now behind her, was to scramble for enough capital to finance development work and "get enough contracts fast enough to sustain the overhead." During the red-ink days, a supportive banker told her that "most people would have given up by now." Dolman, winner of the 1992 Michigan Outstanding Minority Entrepreneur Award, sponsored by Detroit-based NBD Bank and the state Department of Commerce, says, "I never thought of giving up."

Dolman modestly describes her formula for success as "a lot of common sense and a little luck." But her pluck, determination, and tenacity have played no small role. ■

Dan Hager is a free-lance writer in Lansing, Mich.

A Heaven For Hotheads

By Sharon Nelton

Blame it on a Bloody Mary. Or, more likely, a lot of Bloody Marys. Peppers, a hot—pardon the pun—little boutique that sells hot sauces, salsas, peppers, and related items (cookbooks, neckties, and T-shirts), got its start with the Bloody Mary smorgasbord that restaurateur Chip Hearn stages on weekends at the popular Starboard Restaurant, in Dewey Beach, Del.

Starting with the vodka of their choice, guests build their own drinks, adding ingredients ranging from celery and scallions to a selection of more than 200 hot sauces.

When customers began asking if they could buy some of the hot sauces, says Hearn, "We said, 'Wait a minute. There's business potential here.' "

So four years ago Hearn began offering hot sauces for sale. Now, Peppers has taken on a life of its own that includes retail, wholesale, and direct-mail businesses, imports of hot sauces from around the world, and a line of more than a dozen sauces and salsas marketed under the Starboard name.

The main Peppers store is barely more than a cheerfully painted shed outside the Starboard, on busy Highway 1, a block from the ocean. Small as it is—510 square feet—Peppers catches the eye of the hotheads and chiliheads (as hot-sauce lovers are known) among the thousands of visitors who throng Dewey Beach and other nearby beach communities during the summer. Peppers also has a space at The Ice Cream Store, an eatery in Rehoboth Beach that is also owned by Hearn, 43.

Peppers stocks 1,000 hot sauces and salsas ranging from $1.95 to $25 each. Their creators are free-spirited souls who come up with names like Scorned Woman Hot Sauce (packed in a black, velvety bag), Atlanta Burning Sauce, and Dragon Fire.

The Starboard's own line—produced by manufacturers in six states—plays up beach life with names like Another Bloody Day in Paradise, The Ultimate Burn, and Delaware Destroyer (so named, says the label, because "it even makes a shark's breath hot"). Most of the recipes were created by Chip's sister, Randi Hearn. She and their father, Luther Hearn Jr., are co-owners of the business with Chip.

PHOTO: T. MICHAEL KEZA

Some like it hot, *and for them there is Chip Hearn's shop in Dewey Beach, Del.*

They received some complaints when they came out with a risqué label depicting a scantily clad beach lass, but they countered with another label featuring scantily clad hunks. Chip Hearn tells critics, "Look, we're being silly." When people come to the beach, he points out, they want to have fun.

Peppers' simple, two-color catalog goes out every four months, offering a selection of 600 sauces. It includes a waiver that customers must sign if they are ordering either of two sauces that are so hot they can cause injury if consumed straight. Buyers must promise to use them only mixed with food.

Hearn is a hothead himself. "I eat hot sauce on everything," he says. He boasts the world's largest collection of hot sauces—more than 3,500. Like those sold in Peppers, many of them come from the Caribbean and South America, and some are from as far away as Thailand and New Zealand. The Hearn family has 80 varieties of peppers grown for it by a farmer in Milton, Del., for serving in the Starboard.

While the Starboard is still the heart of the enterprise, Peppers is catching up, at $750,000 in revenue last year compared with the restaurant's $1.75 million. Hearn expects Peppers to do "well over $1 million" this year.

Peppers promises to become even hotter. One of the company's newest products, Georgia Peach & Vidalia Onion Hot Sauce, took third place this year at the national Fiery Food Challenge, sponsored by *Chile Pepper* magazine of Albuquerque, N.M. Wholesale customers include the trendy Red Sage restaurant, in Washington, D.C. Peppers is now producing a line of hot sauces licensed by the National Football League, and it has a contract with Ten Speed Press for a book on cooking with hot sauce. And Hearn will open another retail location this fall.

While he is lighthearted about his approach to Peppers, Hearn is not so laid-back about how the business serves its customers. It drives him nuts, he says, when other mail-order houses say it will take four to six weeks to get an order out. So even when a customer calls Peppers on Thursday before a Friday holiday, he says, the order will be on its way by Monday. "There's *no way* I'm going to waste any time," he says. "Why? It's my customer." ■

Insurance With Backbone

By Dorothy Elizabeth Brooks

Do managed care and chiropractic care mix? The possibility occurred to Patricia Leistrum in the early 1980s when she was an insurance broker selling the services of health-maintenance organizations to employer groups.

As many as one in 10 employees requested chiropractic care, but HMOs were ice-cold to such nontraditional coverage.

Recognizing an untapped market, Leistrum formed Atlanta-based U.S. Chiropractic Systems in 1989. While still working as a broker, she recruited a network of chiropractors willing to provide services on a managed-care basis. At the same time, she began knocking on the doors of HMOs and preferred-provider organizations, or PPOs.

Leistrum's pitch was that her company would provide chiropractic services for a set rate, per member, per month, regardless of services rendered. This "capitated" rate would make the services predictably affordable to large pools of people while serving as an incentive to chiropractors to control costs.

It took Leistrum two years to win her first client, a small HMO in Augusta, Ga. "The HMO was owned by a medical doctor and a nurse, so there was great resistance [from them]," notes Leistrum, citing the philosophical differences between traditional medicine and chiropractors. "But they were competing with Blue Cross and Blue Shield and a couple of other national organizations. This was a way to differentiate themselves."

John O'Neal, then chief executive of the HMO, took a chance with Leistrum over her more-experienced competitors because hers was the only firm offering a capitated approach. The other chiropractic networks offered a reduced-fee-for-service arrangement—a system in which no one can be sure what the final tab will be.

O'Neal's decision paid off for the HMO, which remains one of Leistrum's clients. "I got a lot of feedback from members that joined us who said if we hadn't had the chiropractic benefit, they wouldn't have left their [other] plans," says O'Neal, now a self-employed insurance agent in North Augusta, S.C.

Once Leistrum had O'Neal's business, she began devoting full time to the venture she now calls Managed Healthcare Options. Typically, HMOs or PPOs pay Leistrum's company $1 to $3 a month per covered person for chiropractic services, which are in addition to traditional medical coverage.

Coming up with the right rates is a complicated process, but it is the key to capitation. Consequently, Leistrum uses the services of an actuarial firm to develop pricing models for her plans.

Leistrum also maintains that by giving members direct access to chiropractors—rather than requiring members to go through a primary-care physician—an HMO can lower costs for certain conditions such as chronic pain and back problems.

The direct-access feature is a major draw for chiropractors as well. Chiropractor Kathryn Webb of Martinez, Ga., a member of Leistrum's network of providers, says, "In many of the managed plans, you have to go back and see your physician to get a referral to go to your chiropractor. Some medical physicians refer us patients every week. Others hate chiropractic, don't know anything about it, and wouldn't refer somebody even if the patient asked for it."

Leistrum, 39, this year obtained her first business loan—about $200,000—to launch Direct Healthcare Options, a sister company that markets chiropractic coverage directly to the public.

Arnold Bernat, a systems analyst for an Augusta hospital, sought the coverage after he was injured while playing baseball. "You can have one big injury and the coverage has paid for itself because of the sheer number of visits you will incur." He pays $28 a month to cover his family of four; his wife suffers from back pain, and his sons are active in sports.

In February, Leistrum, who has six employees, relocated to larger quarters in Marietta, Ga. She is projecting gross revenues of about $7 million from her two companies this year.

Leistrum says she is amazed that there are so few players in a field where she sees vast potential. "I look at it like peanut butter and chocolate," she says of the marriage between managed care and chiropractic services. "They go together so well that I don't know why somebody hasn't done it to the extent we are doing it."

Leistrum envisions massage therapy, acupuncture, and other alternative treatments being offered in managed-care programs as well. "Chiropractic is actually the mainstream of alternative care," she says. "We are well-positioned, and everybody is ripe and ready for other phases." NB

PHOTO: T. MICHAEL KEZA

Providing direct access *to chiropractors can help a health-maintenance organization lower costs for conditions such as chronic back problems, says Managed Healthcare Options' Patricia Leistrum.*

Dorothy Elizabeth Brooks is a free-lance writer in Marietta, Ga.

COVER STORY

Entrepreneurs Who Excel

By Michael Barrier

Not everyone who becomes a successful entrepreneur can point to a transforming experience like the one that Herman J. Russell remembers.

Russell, who turned 65 this year, is an African-American businessman in Atlanta. When he was in his teens, he recalls, he opened up a shoeshine booth in a vacant lot next to his family's home.

"I had to go before the City Council to get a variance," he says, "because I was using a residential lot" for a commercial purpose. "I went before this totally white City Council, and I'll never forget, one councilman said to me, 'Nigger, why can't you just shine shoes on your front porch?'"

"That did something to me that day," he continues. "It was just like lightning striking me. I said to myself, 'I'm going to make a difference. I'm going to do something to turn that kind of attitude around.'"

Thinking back on the discrimination he faced in his youth, when legally required segregation was still the rule in the South, Russell says: "Fortunately for me, it made me more determined to be the best, to do a super job. It gave me a burning desire to push myself ahead."

That he did. Russell went into business as a plastering contractor 40 years ago, after he graduated from Tuskegee Institute—now Tuskegee University—in Alabama. Today, H.J. Russell & Co.—which embraces construction, airport concessions,

PHOTO: T. MICHAEL KEZA

It was a racial insult *that lit his entrepreneurial fires, says Herman J. Russell. His Atlanta construction and concessions company has risen to the top ranks of black-owned businesses in the U.S.*

Seven renowned business owners tell how their very different companies have achieved dazzling success in surprisingly similar ways.

and, until the company sold it in May, a television station in Macon, Ga.—ranks fourth in *Black Enterprise* magazine's listing of the largest black-owned industrial and service firms. The company's revenues approach $180 million annually. Russell employs 1,500 people, of all races.

Across America, entrepreneurs with the same sort of drive as Herman Russell have built companies from the ground up, until their annual revenues are in the hundreds of millions or, for some, even the billions of dollars.

What lights the fire that makes an entrepreneur an entrepreneur? What common threads link successful entrepreneurs in vastly different industries?

Nation's Business sought answers to such questions from Russell and six other entrepreneurs who have built large companies from small beginnings. Their responses didn't provide definitive answers—ultimately, the keys to entrepreneurial success vary with each individual—but they did sound some clear themes. Among them:

Many things can trigger the entrepreneurial urge, but once it strikes, it is a powerful engine.

Insults of many kinds, like the one that energized Russell, can be a spur to the ambitious.

When Thomas G. Stemberg, CEO of Staples, Inc., an office-supply discounter based in Westborough, Mass., reflects on what links him to other entrepreneurs, especially in retailing, he suggests that many were "fired from our jobs—a huge percentage." These outcasts were, he suggests, "too controversial for the big companies we worked for."

Before he was fired from his job as a highly successful supermarket executive, Stemberg says, "I was not thinking of going off on my own." But once he was out of work, it wasn't long before starting a company became a serious possibility, he says.

While he was visiting a warehouse club, he saw how well office supplies were selling, and he came up with the idea for Staples—in effect, a company that would sell office supplies the way Toys R Us sells toys.

T.J. Rodgers, CEO of Cypress Semiconductor, a San Jose, Calif., microchip manufacturer, first felt the entrepreneurial urge in response to the mismanagement he says he saw at the construction companies where he worked as a high-school student. "I've never liked taking orders from morons," he says.

By the time he graduated from Dartmouth College, Rodgers' interest in heading his own company had hardened into resolve: "I made a commitment that I would be CEO of my own company by the time I was 35."

Cypress came into existence, with Rodgers as its only employee, in November 1982, five months before that self-imposed deadline. Last year the company's revenues were almost $600 million.

"Entrepreneurs have a vision for what they want to do," Rodgers says, "and they typically have it early—and it's locked in. It was a huge advantage for me, going through [graduate school] at Stanford, knowing that I was going to own my own company someday. Every decision I made was made in the context of not hurting that end goal."

Getting fired, *Thomas G. Stemberg says, was the catalyst that led to his starting Staples, the office-supply powerhouse.*

Sometimes the entrepreneurial spirit is part of the family atmosphere while growing up. "I just always knew I was going to have my own company or be my own boss someday," says Theodore W. Waitt, CEO of Gateway 2000, a personal-computer manufacturer based in North Sioux City, S.D.

Waitt's family actually encouraged him not to follow his father into the feedlot business, he says, because the cattle

industry had changed so much over the decades. There was much more vertical integration and, as a result, much less opportunity for middlemen like the Waitt family firm. "My father probably could have made more money working for somebody else, but he refused to do that," Waitt says.

In 1985, when Waitt was 22, he and Mike Hammond started a mail-order business, selling software as well as hardware peripherals to people who owned Texas Instruments personal computers.

Gateway 2000 began selling its own PCs two years later, still through mail order. Waitt thus cut out middlemen himself, by dealing directly with his customers. That strategy worked spectacularly well: Gateway 2000 had almost $3.7 billion in revenues last year.

Lillian Vernon, who 45 years ago founded the New Rochelle, N.Y., catalog company that bears her name—and that last year had revenues totaling $222 million—has a succinct and generally applicable explanation for what lights the entrepreneurial fires: "I think it's hunger. It's an emotional hunger or a physical hunger or a hunger to make more money. I truly believe the entrepreneurial process starts with your genes."

When you're getting a company off the ground, money often isn't the critical ingredient.

Some of these entrepreneurs began with financial support from family members or venture capitalists, but others started with almost nothing.

Herman Russell was one of them, he says: "My hero was my daddy. His education was third grade, but he had about five 'Ph.D.s' in common sense. He taught me the art of saving when I got my first job. I was 8 years old. He told me, 'If you don't make but a dime, save it.' When I went into construction, I was ready. Money has never been a problem for me, because of my dad."

Lillian Vernon went into business with $2,000 in wedding-present money. Ted Waitt started his business literally in the family barn. One reason Gateway still doesn't have much debt, Waitt says, is that for some time "we couldn't get anyone to loan us money. It built some disciplines into the company."

In every case, it's clear that the success of these entrepreneurs can be attributed less to the early availability of money than to what Waitt calls "a belief in what they're doing, or confidence that they can do it if they put their mind to it."

PHOTO: [illegible]—BLACK STAR

From a tiny mail-order business, *Theodore W. Waitt built Gateway 2000 into a personal-computer manufacturing giant by focusing on technically sophisticated customers: "power users."*

Vernon remembers having that confidence when she spent $495 in 1951 to take out an ad in *Seventeen* magazine offering a monogrammed purse and belt. Her husband at the time—they later divorced—"thought I was crazy," she says. "Maybe I was."

There has to be a good fit between your business and you.

Technical expertise can be important, but it's not always essential, even in a high-tech business. Cypress' Rodgers was educated as an electrical engineer, for example, but Gateway 2000's Waitt was a finance and marketing major in college; it was Mike Hammond (now a Gateway vice president) who brought technical expertise to the company.

What may be most important is a temperamental compatibility between the entrepreneur and the kind of business involved. Norman Brinker, chairman of Brinker International—a Dallas-based company that owns Chili's and five other restaurant chains and whose revenues last year topped $1 billion—could quite easily have wound up in some other industry; at one point, he tried real estate.

But if he had gone into something else, Brinker says, it would have been "people-intensive" in some way "because that's where my real niche is." He can picture himself in retailing, for instance, but not in heavy manufacturing.

"When people are really successful," Brinker says, "they're in something they love—it fits them. It fits their psyche."

It took him awhile to find the right fit even in the restaurant business. Early in his career, he opened a coffee shop, only to learn that he didn't like owning that kind of restaurant. A coffee shop requires long hours—"That just wipes out management energy," he says—and the per-person check average is so low "that you can't really generate enough money."

When he tried again, he says, he "wanted something that was open only at night." The restaurant he opened was called Steak & Ale—the first unit in what turned into a highly successful chain.

Sometimes the problem of fit exists on an even larger scale. George Zimmer, who founded the Men's Wearhouse chain 23 years ago in Houston, was a child of the '60s—he is now 47. And at first he believed that there was not "an opportunity in the business world to follow the values and philosophies that I had been nurturing."

Working in his father's clothing business for a few months changed his mind. Now

Zimmer believes that it is because he has put his values to work in his own business that Men's Wearhouse has become highly successful. Those values, he says, are encouraging creativity, fostering both cooperation and competition, and managing not "through hierarchy and bureaucracy but through self-motivation." The chain, now based in Fremont, Calif., has grown to 285 stores, 4,000 employees, and annual revenues approaching $500 million.

"Treating people well is a good way to make money," Zimmer says. "It doesn't matter whether it's your employees or your customers."

If you let them, employees can be a tremendous asset rather than a disagreeable necessity.

"We're in the people business, not the suit business," Zimmer says. "We think that employees are far more important than the merchandise. We offer fantastic value and selection in our merchandising, but what I believe has made Men's Wearhouse unique in this industry is that we encourage our people to take the time to get to know each customer as a unique individual."

What makes that so important, Zimmer says, is that most men, himself included, don't like shopping for clothes. "We've been able to tailor the shopping experience to deal with that reality," he says.

"What people tell me now, almost universally, is that they were blown away by the sincerity and apparent happiness of the person in our store that they worked with."

One problem, of course, is that as a company grows larger, the personal bonds between the CEO and the employees become attenuated. "When we had 150 employees," Herman Russell says, "I knew the names of the wives, the husbands, the kids, birthdays, anniversaries—but I've lost all that. That's what I regret."

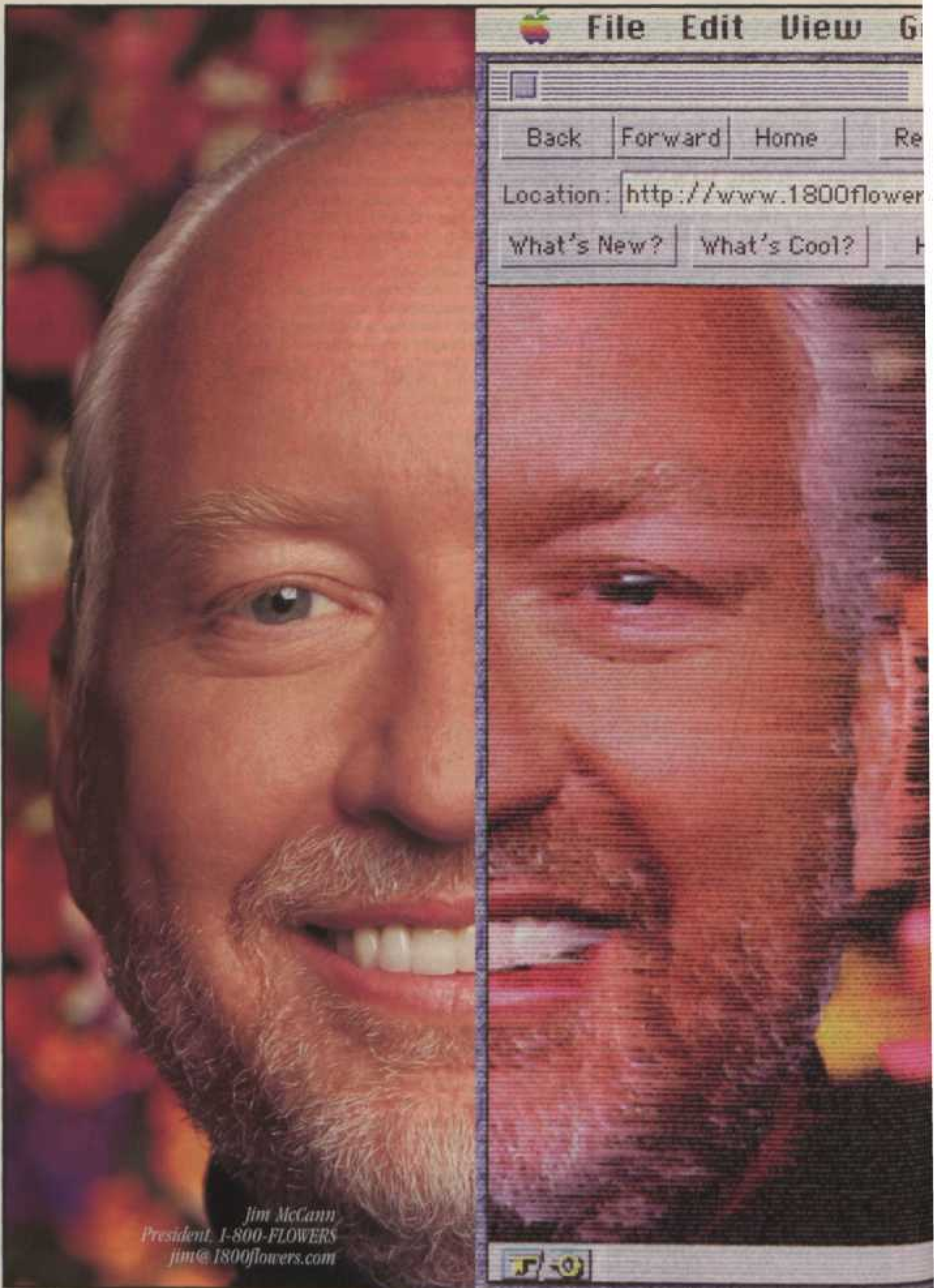
A company has to make up for that loss through training and constant attention to the values that have shaped its growth. Men's Wearhouse, for example, puts new employees through a weeklong training course in Fremont that it calls "Suits University."

At Brinker International's restaurants, "we talk about our culture constantly," Norman Brinker says. "We talk about being upbeat. Your challenge is to exceed customer expectations. Everyone's income is predicated on getting these customers back."

At Staples, Stemberg says, "there's a lot of communication about what's going on in the company, what our priorities are," in an effort to build a company culture that is more sensitive to the customer than it was in Staples' early years.

"We're screening people for service attitudes," he says, and investing more money in training. The company is relying more on full-time rather than part-time employees. "We're doing all the little things it takes to say that we really care

Determined to be a CEO *by age 35, T.J. Rodgers beat his own deadline, founding Cypress Semiconductor; its 1995 revenues were nearly $600 million.*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"Everybody stumbles," *says catalog-company founder Lillian Vernon. "The true test is how well you pick yourself up and move on."*

about the kind of service you get," he says.

You have to think not just about who your customers are but also about who they will be.

When Gateway 2000 started selling PCs in 1987, Ted Waitt focused on "power users"—technically sophisticated computer buyers who were looking for advanced features. "We knew if we gave the more experienced users a better product at a better price," he says, "they would recognize it, and we could efficiently reach them through the computer trade press."

Gateway still regards as "Mission 1" taking care of that core market. Such people, Waitt points out, buy computers for all kinds of uses—in the home, in small companies, in government, in major corporations—"and they're a great referral base."

But as Gateway has grown, it has sought out new customers, by focusing separately on major accounts—corporations buying large numbers of PCs, for instance—and on consumers who don't read computer magazines.

As it expands its consumer base, Gateway is also anticipating a change in the computer's role, by offering a big-screen system, called Destination, that is designed for use by the whole family. The idea is that families will gather around the tube not just to watch TV shows (which you can do with Destination) but also to surf the Internet.

"Over the next several years," Waitt says, "you'll see the role of the PC start to evolve, and the functions that a PC does in a home start to change."

Home PCs were originally adjuncts to the office, he points out, but "now we're starting to see real home applications, where the PC is becoming much more of an entertainment device and a communications device than a productivity tool."

Staples, whose life span roughly parallels Gateway 2000's, has likewise been trying to stay just a little ahead of its customers. "We've been incredibly ingenious in finding ways to continue to grow," Tom Stemberg says.

"The founders of this business were all grocers," he says, "and our approach was a grocery approach. We were focused on being the low-cost guy. We did not see the future: technology products.

"Selling a box of computer-printer paper is like putting a box of detergent on the shelf," he continues, "but when you think about buying a fax machine or a telephone system, you want to discuss those purchases with somebody."

Staples has now added executives with experience in selling such products, and as a result, Stemberg says, "we've developed those skills, and today we're in a different business than when we started."

Similarly, Brinker International has been experimenting with Eatzi's, whose theme is "home replacement"—it is tailored, Norman Brinker says, for those occasions when people "want to go home, but they don't want to prepare things at home."

In effect, Eatzi's is a thoroughly updated delicatessen: Customers can get a restaurant meal on the premises, or take it home—and, for that reason, they come back much more often than they do to a typical

Where To Find More Insights

Several of the entrepreneurs who were interviewed for this article have committed their experiences and insights to paper in recent years. Here are the results:

An Eye for Winners, Lillian Vernon's autobiography, will be published by HarperCollins in October.

No Excuses Management, by T.J. Rodgers, William Taylor, and Rick Foreman (Doubleday Currency, $29.95; out of print, but your local library may have a copy). This 1993 book describes in detail how Rodgers had managed Cypress Semiconductor until that year; his management systems were predictably thorough and well thought-out (and, as he acknowledges in the book, didn't always work as he expected).

On the Brink: The Life and Leadership of Norman Brinker, by Norman Brinker and Donald T. Phillips (Summit, $24.95), chronicles Brinker's business career (and, in harrowing detail, his nearly miraculous recovery from a horrendous 1993 polo accident). It also outlines his "leadership philosophy."

Staples for Success, edited by Thomas G. Stemberg (Knowledge Exchange, $7.96 at Staples stores), came out this year. It tells the story of the chain's rise in detail that is sometimes surprisingly frank.

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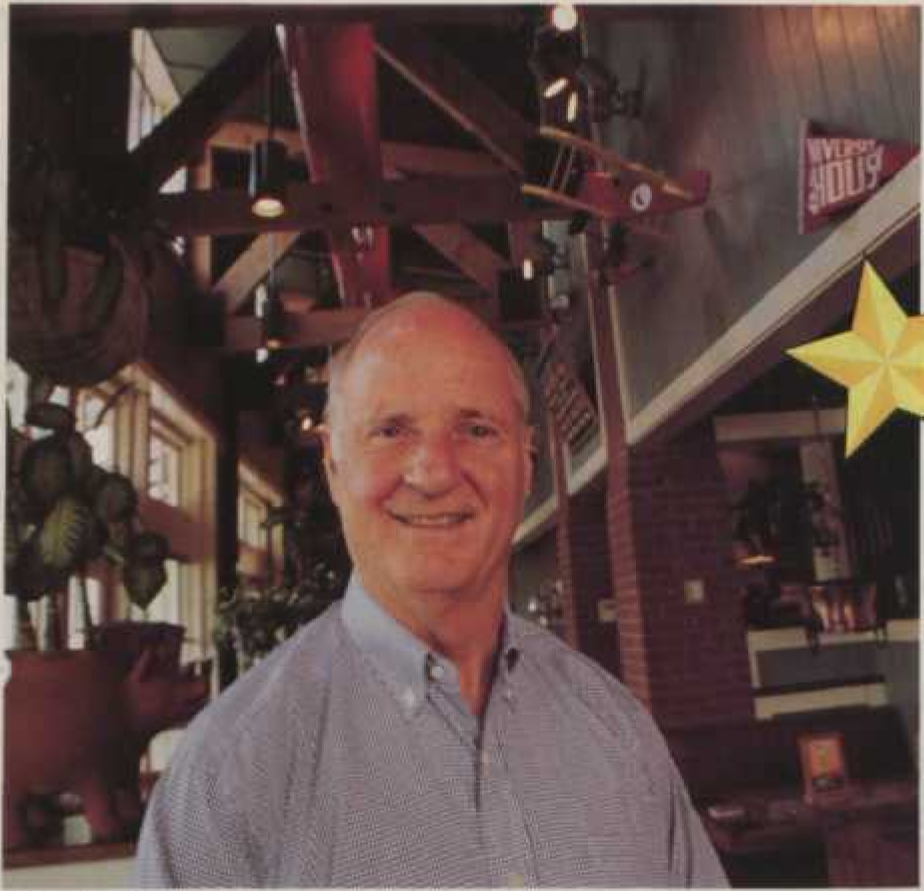


PHOTO: ©JOHN R. FULTON JR.

Risking everything *is "no fun," but sometimes it's what you ought to do, says Norman Brinker, head of Chili's and other restaurant chains.*

restaurant. "You'll hear, 'My wife has just stopped cooking,'" Brinker says.

"You've really got to stay tuned in," he says, "because the customer is changing all the time."

Successful entrepreneurs confront their own mistakes and learn from them.

Tom Stemberg acknowledges that he made a mistake by not seeking faster growth in Staples' early years. "The way to create a significant success in a start-up in today's competitive world—because you can get copied so fast—is to be able to blow it out," he says, referring to his contention that a company based on a strong idea should open multiple locations as fast as it can. "The main mistake we made was that we were too cautious."

Staples has grown to almost 500 stores, and it is now opening stores successfully in markets it once thought were too small. The company has closed only one store in its 10 years; its revenues now exceed $3 billion a year.

Says Gateway's Waitt: "If you make a mistake, you have to admit it, both at the company level and the individual level. You have to create a culture in which people are willing to admit mistakes when they make them and then, after they learn from them—so they don't make the same mistake twice—are still not afraid to take risks."

The worst kind of mistake, Cypress' Rodgers suggests, is to let your choices be governed by a "core value" that is "inconsistent with what the company needs. I've been lucky; I've only had one core-value problem, and it only cost the company $30 million or $40 million before I got my head screwed on right."

Rodgers says he was determined to keep all of Cypress' jobs in the United States—an untenable position, as it turned out, although for years Cypress' prosperity masked its consequences.

Says Lillian Vernon: "Everybody stumbles, whether you're a lawyer, a writer, a mother—we all stumble. The true test is how well you pick yourself up and move on, and whether you're willing to learn from that.

"I've had these corporate types work for me who can't concede failure because they're so tied up with their own egos, but entrepreneurs will always pick themselves up and say, 'I learned something from that.'"

You must be prepared to take risks when you go into business and as your business grows.

When he quit to start Cypress, Rodgers was, as he says, a "rising young manager" at a leading Silicon Valley company. He not only quit, he burned his bridges with top management, and so that animosity lingered for years afterward.

However reckless that might have appeared, he says, "it was nothing but the obvious decision that one would make if you'd been waiting for your window for a decade." In a high-pressure industry like his, Rodgers says, budding entrepreneurs not only must be willing to accept risks but must actively seek them out.

Norman Brinker sold Steak & Ale to Pillsbury Corp. and became not just Pillsbury's largest stockholder but also president of that company's restaurant group, overseeing Burger King as well as Steak & Ale and Bennigan's.

He left Pillsbury to buy a large stake in Chili's—giving up a company that was doing very well, and was paying him a handsome salary, to risk everything with a much smaller company that had only 23 restaurants. Looking back on his decision, Brinker says, he thinks now, "Why did you do that?"

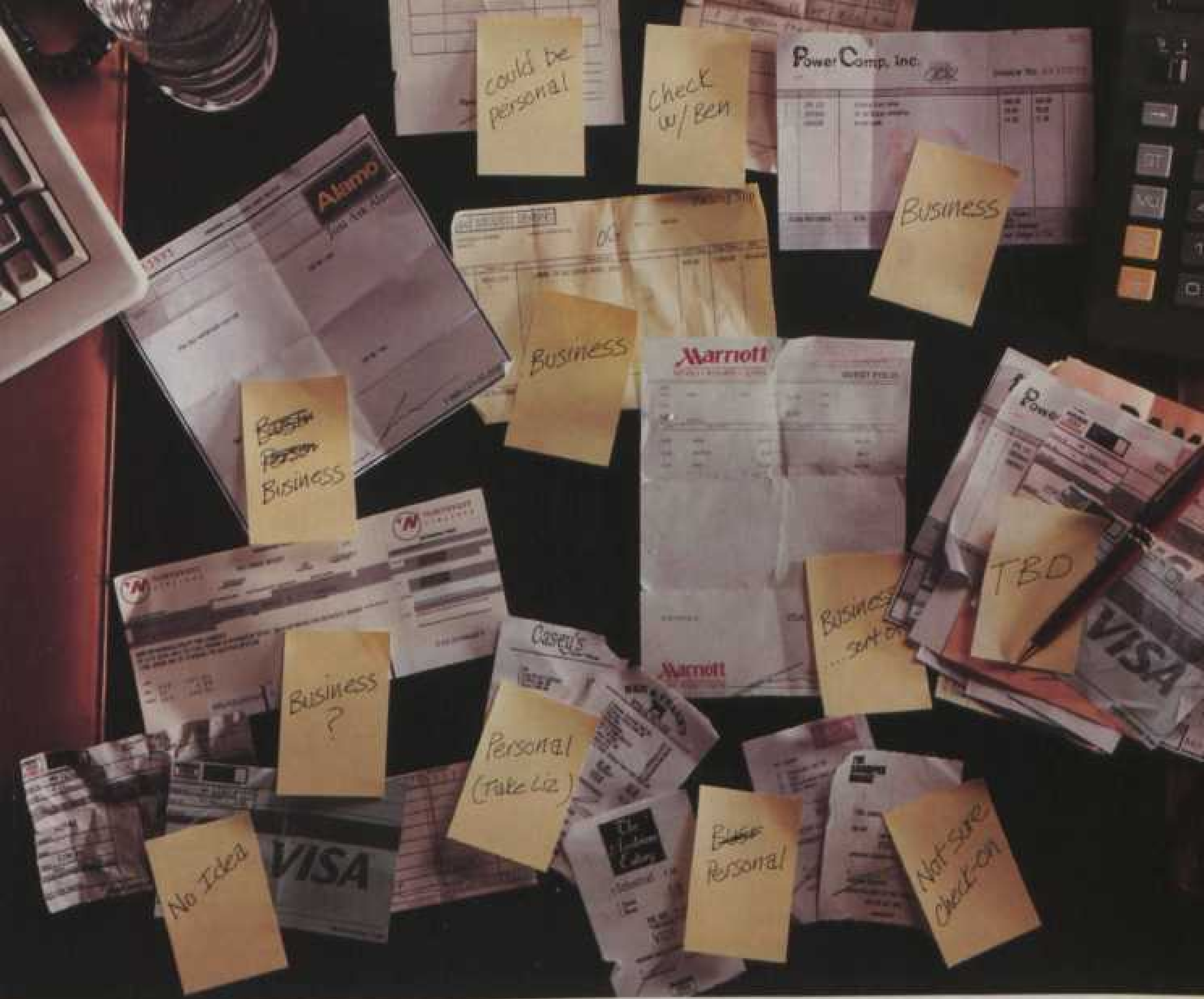
He offers this answer: "The less risk you can take, the better off you are. It's no fun to risk everything. But if you see something that you really think you ought to do, and you're good at it, go ahead and take risks because that's one way of speeding up the process."

At Men's Wearhouse, combining attentive service with low prices represents a continuing gamble that customers will be encouraged to keep coming back as a result of that strategy. It is, George Zimmer believes, much less expensive to win repeat business through excellent service than to attract new customers through advertising.

"We do lots of advertising," he says, "but what's fueling our unbelievable growth is the combination of heavy advertising with high-quality service. We feel that gives us a lock on our customers."

It is a strategy that has paid off. And yet, the element of risk is very much present because Zimmer doesn't have any hard evidence to show that the stores' excellent service is in fact drawing enough customers back to justify the cost of providing it.

The problem, Zimmer says, is that such purchases are typically spaced so far apart that the Men's Wearhouse's database simply can't accommodate the necessary information on millions of sales. He is thus potentially vulnerable to competitors



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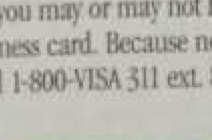

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who do not offer such service and can therefore offer even lower prices.

You must accept a change in your own role as your business grows larger.

"Entrepreneurs are very detail-oriented," Lillian Vernon says. "They really think that they can do it all and that they can do it all better—and they can. I can do everything better than anybody else; I've done it longer.

"But I'm not going to do that—so you pick your spots. You pay attention to the details that really can't be fixed except by you—the ones that are going to kill you."

Other successful entrepreneurs speak of shedding old responsibilities and assuming new ones as their companies grow.

Says Gateway 2000's Waitt: "As a company, we've only scratched the surface of what we can do. Over the last 10 years, although I've been doing the same job, it has probably been six or seven completely different jobs as the company has grown."

In strong companies, what the entrepreneur becomes over time is not a manager but a leader who tends the culture and values of the company. An effective leader shows an intense interest and involvement in the workings of the company—but isn't a micromanager.

PHOTO: LIVARO PHOTOGRAPHY

Employees can be a major asset, *says George Zimmer, founder of the Men's Wearhouse chain. "We're in the people business, not the suit business," he says. "We think that employees are far more important than the merchandise."*

As Herman Russell says, "You have to give people latitude to work and make decisions. You've got to turn them loose."

Says Rodgers: "I'm more interested these days in getting a warm feeling that you"—that is, an employee—"know what's going on, and that the process by which you're working is sending you in the right direction, than I am in tuning up the last decision in manufacturing or R&D.

"I spend more of my time now watching for processes being right than for [outcomes] being right."

George Zimmer sees himself, in his role as CEO, as "a resource to other people. I'm like the library. We've tried a lot of dumb things over 23 years that didn't work, and maybe I can point out a similar situation from 12 years ago that will help you adjust your idea."

You should look beyond the horizons of your business—but maybe not too far.

"If you don't get involved politically," Norman Brinker says, "you're a dead duck, because this government does not understand how business works." He says, for example, that if the Clinton administration's 1993-94 effort to mandate health-insurance coverage had succeeded, "we would have been $5 million in the hole" and forced to raise prices a potentially ruinous 7 percent.

T.J. Rodgers says that Silicon Valley entrepreneurs like himself see government as a "tolerated nuisance" that should be ignored except when it "is doing something so colossally stupid that we have to act."

Not everyone goes as far as Brinker and Rodgers in their wariness toward the government. "You always have to deal with externalities," Tom Stemberg acknowledges. "But if anybody struggles with the laws of this land, they should move to Germany [where Staples has opened stores] and try competing there."

Ultimately, of course, there can't be any hard-and-fast rules for achieving success as an entrepreneur—except perhaps for one. "It comes from dedication, hard work, tremendous sacrifice, and total commitment," Herman Russell says. In any type of business, he notes, "that infrastructure has to be in place." NB

To order a reprint of this story, see Page 75. For a fax copy, see Page 5.

The Bigger They Are . . .

Gateway 2000, H.J. Russell & Co., Cypress Semiconductor—all of those companies used to be small. They got big by competing successfully with the big guys.

As a big guy who was a much smaller guy not long ago, Thomas G. Stemberg, CEO of Staples, Inc., has some advice for small companies that want to grow in competition with heavyweights like his.

"No big guy is ever going to execute every category to its full potential," Stemberg says. "Whatever specialty you're selling, if you really focus on your specialty and are really good at it and offer all the needed services, you'll do well, whoever the big guy you're competing against is."

If you're a retailer, go into the stores, he suggests, and see what your competitors are doing well—and doing badly—and respond accordingly. You should scrutinize your competitors, "not to put them down," he emphasizes, "but to learn from them."

And, says Stemberg, you shouldn't necessarily be seduced by the example of chains like his, which expanded rapidly. You quite likely will be better off growing more slowly—and retaining a larger share of the ownership.

"If you have something that is unique and can be quickly replicated—and there are very few things that are truly unique—you should blow it out," he says—that is, open at multiple locations as fast as you can.

"But most of the time, you're doing something that many other people are doing," says Stemberg, "so why risk your business to blow it out unnaturally? You should ask yourself if you're better off owning 100 percent of 12 internally financed units as opposed to 5 percent of something that's 120 units."

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TRENDS

Opportunity Knocks As America Ages

The fast-growing elderly population's medical and daily-living needs are creating new niches for small companies.

By Peter Weaver

The relentless "aging of America" is causing a revolutionary change in the health-care industry—a change that's tailor-made for small firms.

As more Americans live longer and the numbers of people in the upper age brackets rise, more of them who require medical attention and need help with the tasks of daily living are also managing to live at home rather than spending costly time in hospitals or facilities such as nursing homes.

And many are doing so with help from small businesses that provide such services as on-site medication monitoring, assistance with meals, housekeeping services, and local transportation.

"The elderly have more money these days to make this happen," says David B. Wolfe, a marketing consultant in Reston, Va., and author of *Serving the Ageless Market* (McGraw-Hill, $24.95). "Those who don't have the wherewithal," Wolfe says, "may have affluent, middle-aged children who can help out."

Americans over age 65 account for more than 50 percent of the nation's health-care market, and the fastest-growing segment of this market is the 80-plus group. According to the Census Bureau, there are 8.9 million people in the 80-plus group, up from 7.5 million in 1990, and the number is expected to grow to 9.2 million in 2001. These individuals tend to need increasing medical attention and help with the tasks of daily living.

"The demographics are definitely there, and the opportunities for small businesses are unlimited," says Michael Reitz, a division president of Genesis ElderCare Centers, in Kennett Square, Pa. The firm owns and operates home-care and institution-care facilities from New England to Florida.

Choosing A Niche

How do small businesses decide what niche to investigate in this burgeoning market?

"If you have parents or grandparents who have needed special care or might need it now," says Reitz, "ask yourself what service or product you could offer that would make life at home better for them."

Finding ways to help an elderly family member stay at home is proving to be a quick way to find a new-product or new-service niche in the home-health-care industry, which is growing at a rate of 20 percent a year. Industry sales increased to $925 million in 1993 from $805 million in 1990, and they were projected to reach $1.4 billion by 2000, according to research conducted by Darla Gill, a former marketing vice president for a medical research firm who went on to help found a Salt Lake City company in home health care.

Marla Gold, a former critical-care hospital nurse, says, "I took care of my grandparents, and I realized that there was a great need for more-personal, in-home assistance." She and her husband, James, are co-owners of Helping Hand Assisted Living, in Lakeland, Fla. Helping Hand provides elderly clients with light housekeeping, laundry service (including bed linens), home cooking, companionship, medication monitoring (correct timing and dosages), and escort service to doctors' offices, shopping centers, and outings.

What gives her firm "an edge," says Gold, is that "we match personalities." When a customer likes to play cards, cook a gourmet meal, or do flower-pot gardening, the Golds try to select a professional caregiver who enjoys the same activity.

This personal touch has paid off. Helping Hand serves a long list of central Florida institutions that offer home-care services for discharged patients. The Golds have a roster of more than 300 independent-contractor caregivers whom they carefully selected and trained.

A Helpful Handle

Randall D. Block, a biomedical engineer, got his business idea after visiting a grandparent who was having trouble coping with a second knee replacement. "I was watching him trying to get out of a chair with his cane," Block says, "and he couldn't do it. The leverage wasn't right." He saw that the cane needed another handle farther down on the shaft.

Block bought an aluminum cane and bolted on another handle, which he had made out of an old bicycle-seat post. He added a bicycle handlebar grip to make the handle more comfortable. "That was prod-

To make living at home *less daunting for the elderly, architect Edgars Nilenders recommends such features as step-free shower stalls with handrails all around.*

uct prototype No. 1," Block says, "and my grandfather was able to pop right up out of his chair with it."

Block designed a streamlined version of the original double-handled cane, calling it Super Cane. Three years ago he and Darla Gill formed Momentum Medical Corp., in Salt Lake City.

Block and Gill rounded up private-placement investors and started manufacturing the new cane as well as a Super Walker and a SwingAlong Caddie for walkers, crutches, and wheelchairs. "Last year we did $500,000 in sales, and this year we hope to hit the $2 million mark," says Gill.

Biomedical engineer *Randall Block's Salt Lake City firm produces devices to help people do everyday things such as rise from a chair. Above, Bob McElvain demonstrates a walker with its back legs curved to provide leverage.*

Seated And On A Roll

In a similar entrepreneurial scenario, Robert Brantman designed a sliding seat to help his wife, Beatrice, move between her wheelchair and her bed or get into and out of the family car so she could "get out and around." The seat is on rollers that slide in grooves on a plastic board.

Brantman, now president of Beatrice M. Brantman Inc., in Lake Forest, Ill., obtained patents and four years ago started manufacturing and marketing portable, no-lift transfer boards called BeasyTrans and BeasyTrans II (a smaller version). Now, he says, the boards are in use throughout the United States and in 33 other countries, and he expects this year's sales to top 15,000 units. Many of the boards will go to veterans hospitals, rehabilitation hospitals, nursing homes, and home-care providers. Brantman recently won the American Society on Aging's New Products Gold Award.

On The Inside

While people outside the elder-care industry are responding to the special needs of family members to generate new products or services, enterprising professionals already working for nursing homes, assisted-living facilities, and home health-care agencies are doing the same—from the inside.

Healthcare Design Consultants, based in Huntington Valley, Pa., near Philadelphia, is an example. It was founded by architect Edgars Nilenders and his wife, Barbara, a physical therapist who works for an agency that provides home health care. As she visited patients, she noticed that most home and apartment interiors were not designed to accommodate the limitations of elderly people trying to live in their own homes as long as possible. She asked her husband if something could be done to make such homes more livable.

"I found some real traps," Edgars Nilenders says, such as toilets "too small and too low to the floor." With proper toilets and walk-in showers, he says, an elderly resident can be less dependent on the help of others.

"In the kitchens," he says, "the problem is the height of the counters and the wall cabinets." He designs and installs counters and cabinets that move up and down on tracks for easy access.

The Nilenders' prescription for retrofitting the houses of elderly people includes front-loading rather than top-loading clothes washers and dryers, ranges with controls at the front rather than the back, proper lighting, skid-resistant carpeting, and rearranging furniture so it doesn't block paths within the home.

The Institutional Approach

Hospitals and nursing homes are competing to attract Medicare rehabilitation business involving people over 65 who have had hips or knees replaced or who have been treated for a disabling disease.

This is a lucrative market because Medicare pays 100 percent of rehabilitation costs (room, board, rehabilitation therapy, and medication) for up to 20 days. If more rehabilitation time is needed, the patient pays the first $92 per day and Medicare pays the remainder—for up to 100 days.

As part of the rehabilitation process, occupational therapists show patients how to cope with everyday activities that may have become difficult. Such common tasks as putting on stockings and shoes, going up and down stairs, or getting into and out of cars can become extremely troublesome.

"We saw the rehabilitation wave getting bigger and bigger and began designing, building, and installing daily-activity modules" for nursing homes, hospitals, and clinics, says Ron Landsborough, vice president for program development with Phoenix-based Guynes Design.

The modules replicate real environments and allow the disabled to practice coping with situations. For example, Landsborough says, his company makes automobile modules "so the patient can learn how to back into the front seat and carefully swing his or her legs inside."

Guynes Design also builds and installs bank modules, with simulated automated-teller machines and teller windows, and supermarket modules, with product sections, shopping carts, and checkout counters. There's even a restaurant module where a person can look at a menu, place an order, receive food, and pay the bill.

Guynes Design, which went into operation 12 years ago with just one module in

TRENDS

one facility, now has institutional customers in 38 states, five Canadian provinces, and several European countries. The company had $8.5 million in revenues in 1995, and it projects revenues of $12 million for 1996.

The trend toward broader in-home services for the elderly is driven not just by individuals' desire to stay at home but also by cuts in federal and state health-care budgets. For example, a number of states are now waiving requirements that low-income, long-term-care patients be in skilled-nursing-care facilities to qualify for Medicaid. And for good reason. It costs much less to maintain a Medicaid beneficiary in a low-tech, assisted-living environment than in a skilled-nursing facility—nearly $10,000 a year less, according to a study done for Oregon's Medicaid program.

Most states spend around two-thirds of their Medicaid money on long-term care for the elderly poor, according to estimates by the U.S. Health Care Financing Administration, which administers the Medicare and Medicaid programs. Arizona four years ago started the Medicaid "downsizing" movement to pave the way for less-costly assisted-living care, and other states are taking similar steps.

> "If elderly people can't stay in their own home, they want to at least remain in the same neighborhood."
> —Betty Conard, Co-founder, Just Like Home Inc.

A Growing Market

For hard-working, dedicated entrepreneurs, the movement offers potential in a market sure to grow. Assisted-living facilities range from large chains with campus-like settings to mom-and-pop group homes.

An average of 80 people reside in each of the large-chain facilities, according to the Assisted Living Facilities Association of America, in Fairfax, Va. Small, independent facilities—the fastest-growing market segment—typically house 10 to 20 residents in large homes or small apartment buildings, the association says.

Nationwide, there are about 40,000 of the smaller assisted-living facilities, most of them developed and managed by local entrepreneurs.

Betty Conard, a former high-school teacher, and her husband, Richard, a former family doctor, exemplify the hustling entrepreneurship and dedicated work it takes to start and successfully operate small assisted-living homes. The Conards are the founders of Just Like Home Inc., an assisted-living business based in Bradenton, Fla. "We buy big Florida homes that were built as far back as 1917," says Betty Conard, "and we renovate and sometimes expand them to take 15 to 20 residents."

The Conards started with one home, which was promptly filled, and have since branched out with six more homes in the Bradenton area, two elsewhere in central Florida, and 12 more in development.

"If elderly people can't stay in their own home, they want to at least remain in the same neighborhood," says Betty Conard, "and we help them do that." Recruiting and training top-drawer care managers for each home is the key to success, she says.

Local businesses find they can supply small assisted-living facilities and independent nursing homes with on-site services that help these facilities compete with the big chains that offer more medical services in more-deluxe surroundings.

Small firms are "providing on-site services such as dining, grooming, bookkeeping, transportation, even dentistry and optometry services," says marketing consultant Wolfe.

Making Connections

Joni Seivert, president of Connections Unlimited, a Denver-area firm that provides professional counseling and referral services for elderly people and their families, has helped small businesses find numerous niches in the local elder-care market. Seivert, a former retirement-community administrator, set up an association of more than 100 businesses that can provide all types of housing and personal service. Each company pays a $100 annual membership fee in addition to fees for referrals.

The rest of Connections Unlimited's revenues come from assessment and counseling services. When an elderly family member is having difficulty making it on his or her own because of physical or mental problems, Seivert can be called in to appraise the situation and set up counseling sessions to outline the options. Referrals for housing and ongoing needs are specified in a detailed care plan.

For Seivert and others, the possibility of making money in the burgeoning elder-care market is a major attraction. But there's another ingredient in these success stories. "It's the attraction of being able to win two ways," says Genesis ElderCare's Reitz. "You earn your living by providing some product or service that makes life better for another human being." NB

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SMALL BUSINESS TECHNOLOGY

New Horizons In Communications

Small firms stand to reap the benefits of competition among the providers of emerging information technologies.

By Tim McCollum

To get to Lou Ann Hammond's automobile-finding service, you can take the superhighway—the information superhighway.

Hammond's four-person company, Car-List Inc., in San Francisco, uses computers and high-speed telecommunications links to serve car buyers who want to find the vehicles they seek at prices they're willing to pay without the hassle of shopping in person.

ENTERPRISE 2000

Under the system of links, computer terminals in 15 credit unions throughout California give customers access to Car-List's database of new and used cars, providing an important convenience to shoppers. The database contains current information about prices, features, and the availability of vehicles at selected dealerships and among individual sellers statewide.

Hammond views Car-List's three-year-old arrangement with the credit unions as a natural progression. Her company began 11 years ago with a used-car listing service that could be tapped into with a phone call. This latest service simply brings car shopping and financing together in a convenient setting.

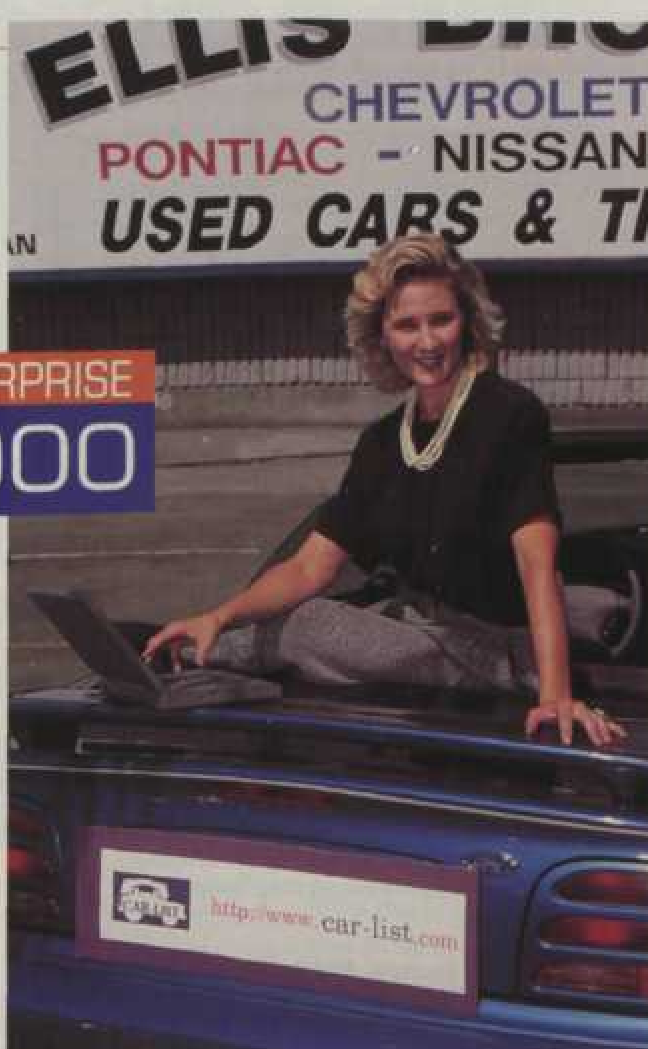


PHOTO: ©LINDA SUE SCOTT

Using high-speed *telecommunications, Lou Ann Hammond's firm offers information and convenience to car shoppers.*

The Car-List database computer and the computers at the credit unions are linked with the latest in telecommunications networking technology, ISDN, which stands for integrated services digital network.

ISDN gives people the equivalent of two phone lines by allowing them to access data and voice calls simultaneously. With phone equipment designed for the task—yet with conventional telephone lines—the user can connect to digital networks at four to five times the speed of the fastest current analog computer modems.

This story is part of a continuing series on managing at the turn of the century.

This technology, which is just beginning to be widely deployed, may eventually replace analog modems.

Hammond hopes that telecommunications technology ultimately will help her expand her business nationwide. Toward that end, she established a home page on the Internet's World Wide Web component last year. Each day the page hosts more than 15,000 visitors and receives about 50 requests for informational brochures.

The Web site's success, however, will depend not on the number of prospective buyers it attracts, Hammond says, but on the number of car sellers from outside California that she can add to her database.

Over the past several years, providers of telecommunications and information technology have promised to deliver to business people revolutionary ways to communicate with the buying public—ways that seamlessly blend telecommunications, computing, entertainment, and information services.

Now that Congress has passed the Telecommunications Act of 1996—the first major overhaul of the laws governing telecommunications in more than 60 years—new telecommunications technologies may become available faster, more universally, and at a lower cost to customers.

Signed into law by President Clinton in February, the act tears down many barriers between different telecommunications providers, and it promotes competition in everything from local and long-distance telephone service to cable television.

Telecommunications analysts forecast that the biggest benefit of the new telecommunications law for small-business owners will be a new ability to buy packages of telecommunications services—local, long-distance, and wireless calling as well as paging, voice mail, and Internet access, for example—from one company at one discounted price on one invoice.

Even though the Federal Communications Commission has not yet established the rules governing telecommunications competition, AT&T, MCI, Sprint, and several of the regional phone companies have begun to package services, many of them aimed at small businesses.

"The opportunity for one-stop shopping will be very appealing for small businesses," says Richard E. Wiley, a partner with the Washington, D.C., law firm of Wiley, Rein & Fielding and a former FCC

chairman. "Some small businesses would just like one company to come in and do it all [for] one price."

But pervasive competition won't happen overnight. Industry analysts such as David Goodtree, of Forrester Research, in Cambridge, Mass., say the full effects of telecommunications reform probably won't be felt until 1997 at the earliest.

Nonetheless, small-business owners should start learning about, and making plans for, the coming changes. Indeed, some of those promised changes are beginning to arrive. They include ISDN, wireless communications services, and wider use of the Internet. And, like Car-List, many small companies have been among the first to employ new technologies to enhance their businesses.

ISDN, for example, facilitates voice, data, and video transmissions over a single copper line, thus giving Car-List and other small firms communication capabilities rivaling those of large corporations.

Another new development that could have a major impact on small businesses, personal communications services (PCS) technology, is beginning to compete successfully with cellular telephone services in the Baltimore-Washington corridor, the first area where PCS has been offered. PCS networks in other areas are expected to begin operating this fall.

PCS appears similar to conventional cellular service, but it combines voice and messaging capabilities that permit communication over a digital network through the use of small, lightweight, hand-held telephones or handsets.

Companies—some in fields outside telecommunications—have bid more than $17 billion in two FCC auctions for licenses to provide PCS in various parts of the country. All regions were covered in the bidding.

Companies are also enhancing their ability to communicate by using satellite networks and the Internet. Satellite networks provide videoconferencing, messaging, and data-communications capabilities, for example. And the Internet allows users to communicate electronically with anyone regardless of location for the cost of a local phone call.

"Smaller businesses are adopting communications technology at a much quicker rate than they ever did before and probably faster than business in general," says Mark Kutner, president of the small-business-services division of Bell Atlantic, the Philadelphia-based phone company for the mid-Atlantic region. Communications services, Kutner says, "become productivity tools for small businesses and enable them to act like larger businesses."

PHOTO: SAL DIMARCO JR.—BLACK STAR

Doctors can diagnose *patients in other locations with equipment sold by Dr. Woodrow Kessler's firm, which uses the latest in telecommunications networking technology.*

ISDN's Promise And Performance

To see the promise of ISDN technology, look at Dr. Woodrow Kessler's business—providing remote diagnostic equipment and services for fellow physicians.

Kessler, a pioneer in telemedicine for more than 20 years, took part in AT&T's first tests of the use of live video to diagnose patients, at Temple University School of Medicine, in Philadelphia. The technology wasn't practical for widespread use, however, until ISDN came along, he says. "When we realized the ISDN technology could afford us the opportunity to see things in full motion, we jumped on it."

Kessler's Tele-Diagnostics Inc., in Media, Pa., sells telemedicine equipment that enables doctors to diagnose patients or consult with specialists in other locations while simultaneously creating a video record of each session. So far, Tele-Diagnostics has hooked up more than 25 locations in Pennsylvania and Maryland, including doctors' offices, hospitals, and some patients' homes. Each installation costs about $200 a month. That covers the ISDN line and terminal adapters—which are ISDN "modems"—supplied by Bell Atlantic, as well as the required software, computer, camera, and high-resolution monitor.

Although ISDN could make applications such as telemedicine and desktop videoconferencing realistic for mainstream businesses, telephone companies thus far have been slow to deploy the technology. Ripmeester & Brown Associates, a market-research firm in Gaithersburg, Md., estimates that just 13.3 percent of telephone access lines will have ISDN capability by the end of 1996, though it projects that number will approach 50 percent by 2000.

The major phone companies say broader capability is coming soon, partly because activities such as Internet access, videoconferencing, retail credit verification, and work-at-home programs require high-speed data transfer.

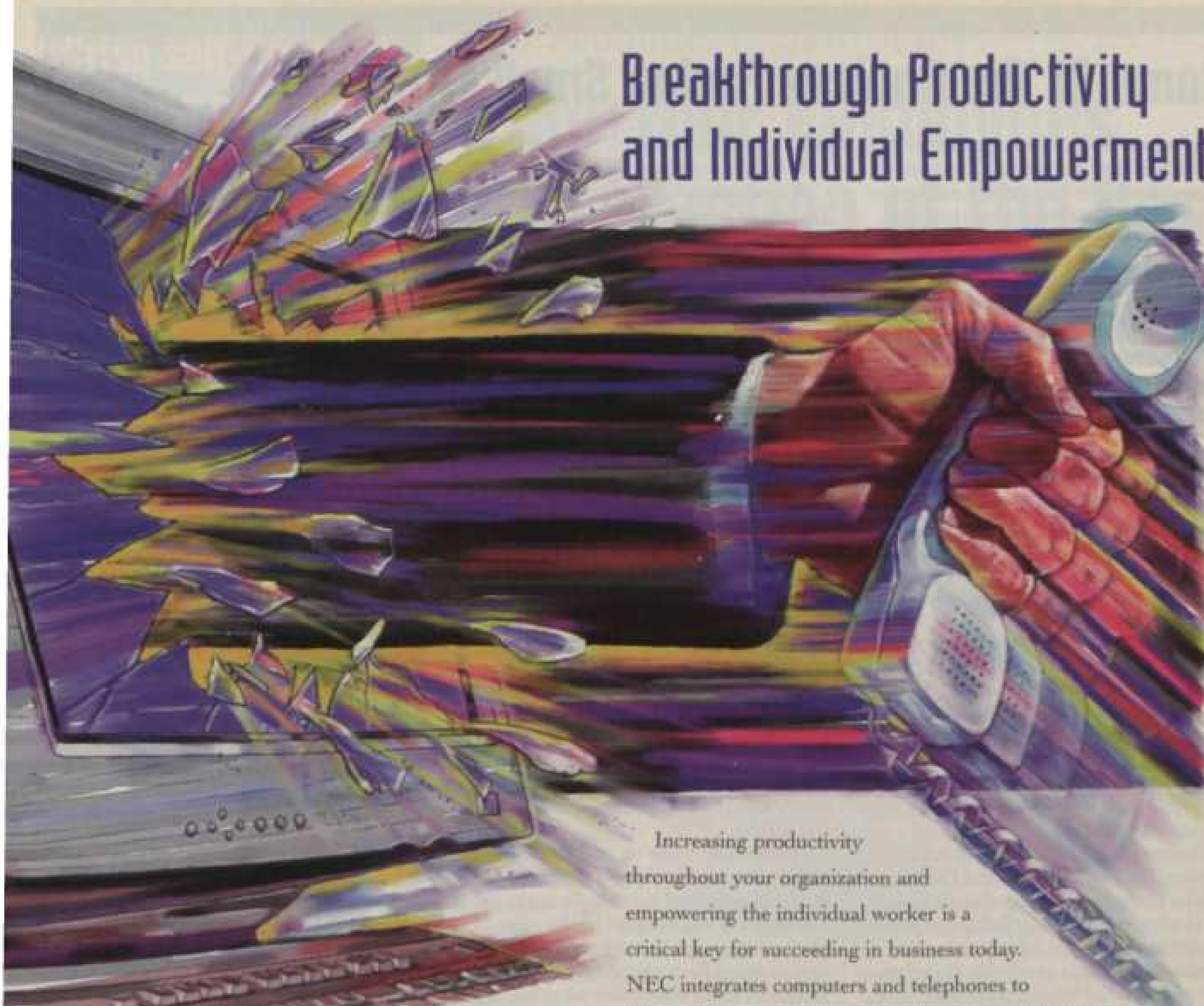
ISDN is becoming more affordable. Regional telephone companies such as Ameritech, Bell Atlantic, and Pacific Bell are rolling out low-cost ISDN programs aimed at small businesses. For example, Ameritech recently began charging small-business owners $120 for installation, plus a $40 monthly fee, in a test-marketing program in Champaign, Ill.

Outlook For Wireless Technology

As hot as high-speed data communications via wire have become, wireless communications may ultimately become more widely used and have newer, more innovative applications sooner because of advancing technologies and an increasingly competitive marketplace. Leading

Continued on Page 38

Breakthrough Productivity and Individual Empowerment



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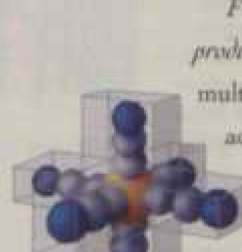

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Some Of The Choices Facing Small Firms

The four-month-old Telecommunications Act of 1996 was designed by Congress to unleash the powerful forces of competition on the telecommunications marketplace, thereby providing purchasers of cable television and local and long-distance telephone services with greater convenience, more choices, and lower costs.

"I think [the statute is] going to be very pro-small business," says S. Ross Brown, managing partner in the San Francisco office of the executive-search firm Egon Zehnder International and former CEO of the international subsidiary of Pacific Telesis Group. (Pacific Telesis includes Pacific Bell, which provides local phone service in California and Nevada.) He says small firms will prove to be "a clear niche that either the local phone companies, the cable companies, or the long-distance companies will rush to fill."

But telephone and cable competition isn't likely to gear up fully until 1997, Brown says, in part because so much work involving regulations related to the law still must be done in Washington.

Congress left most aspects of implementing the law to the Federal Communications Commission. These details include developing rules and regulations to govern everything from local telephone service competition to cable ownership to participation among small telecommunications companies. And once the rules are finalized, the FCC must coordinate these regulations with those established by state public-utility commissions.

Nevertheless, when the dust surrounding the new law settles, small-business owners will be faced with more choices. Here's what to expect as we move farther from the days of the rotary phone:

Local Service

Options for small firms in choosing local-access telephone service will include:

■ The firm's current local-access telephone company.

■ Any of the other regional operating companies—there are seven—spawned by the 1984 breakup of the Bell telephone system.

■ Long-distance companies such as AT&T, MCI, and Sprint.

■ Cable operators.

■ Competitive access providers such as Intelcom Group, in Edmonton, Alberta, and MFS Communications Co., in Omaha, Neb. Both compete with local phone companies for large-business customers and are not required to provide residential service. Such companies currently provide local telephone access that allows business customers to connect to long-distance networks at rates typically lower than those of local phone companies.

■ Possibly, electric or other utility companies.

The Outlook For Rates

Since 1991, 31 states—including California, Illinois, and New York—have passed laws allowing some local phone competition.

Business rates are expected to decrease over time as a result of growing competition resulting from the new law and because phone companies are expected to stop using revenues from business rates to subsidize low-cost residential service.

Historically, rates on residential customers have been capped to ensure affordable universal service. To make up the revenue lost because of the caps, phone companies have charged businesses more for a phone line—in some instances more than twice what residential customers pay.

The FCC and state utility commissions are considering rate plans that would require all access providers to contribute to a "universal service" fund to subsidize the higher costs of supplying phone service in rural areas. The fund would be drawn largely from fees paid by urban customers.

Large-business customers in urban areas will be the first to benefit from increased competition because they are the easiest, most profitable to serve. But small companies that take the initiative to shop for deals also stand to benefit, especially if they are willing to lock themselves into long-term arrangements.

Long-Distance Service

The regional Bell phone companies can begin offering long-distance service to customers outside their local service areas immediately. Once the FCC and state regulators determine that facilities-based local-phone-service competition exists in an area, the area's regional phone company will be allowed to offer its own customers long-distance service.

And while the regional Bell operating companies will try to get their existing local-access customers to switch from AT&T, MCI, and Sprint, those long-distance carriers, which have been honing their competitive skills for over a decade, will be going after local customers as well.

Rates are expected to go down as a result of increased competition and because long-distance companies no longer will have to pay a surcharge to support universal phone service as part of the fee imposed on them by local phone companies for connecting long-distance calls to their local networks.

Cable TV

The telecommunications law lifts the caps on all cable-television rates by 1999 and immediately deregulates rates for small cable systems—those with fewer than 50,000 subscribers. The caps were enacted by Congress in 1992.

Under the new law, local telephone companies can provide video service and acquire cable operators outside their service region. Phone companies cannot buy cable systems in their local service area, with the exception of rural markets, but phone and cable companies can own up to 10 percent of one another.

Consumer groups say cable rates may increase as much as $7 a month. But analysts say rates are expected to stabilize as a result of competition from local phone companies and from direct-broadcast satellite.

Many cable companies are upgrading their systems to provide two-way communications capabilities for telephone, data, and interactive services such as home shopping and video-on-demand.

Small firms may benefit from using cable networks for their data needs. Cable modems, now beginning to enter the market, promise to transfer data at 10 times the speed of ISDN (integrated services digital network), a technology that itself is up to five times faster than the analog modems commonly used for linking computers.

Continued from Page 34
the way in this area are voice phones and wireless messaging.

Advocates of personal communications services say the technology will drive down the cost of wireless communications by adding as many as three new competitors to each market. They are expected to price PCS at lower rates than cellular phone service and are not expected to lock customers into the long-term contracts that are common in the cellular marketplace. Instead, the customer's biggest investment will be the PCS phone itself, which now costs $100 to $200.

PCS's technological advantage over cellular is that it is digital, whereas most cellular communication is analog. In current analog systems, such as local phone and cellular networks, signals are transmitted as sounds. With digital technology, these sounds are converted into computer data—a series of ones and zeros—and are transmitted over the network; at their destination they are converted back to sounds.

This means that a PCS network is less prone to the dropped calls that occur over cellular networks and that sound quality is often better. In addition, PCS networks can carry data. This enables users to receive both voice and screen-displayed messages on their handsets.

Early reviews of PCS indicate that the technology may become very popular very fast. It has certainly made a believer of Brooks Moore, president of Big Shot Productions, a video-production company in Baltimore.

Big Shot recently switched to the Sprint Spectrum PCS service offered by Sprint and American Personal Communications, in Bethesda, Md., after using cellular phones for 10 years.

Moore says the PCS phones have enabled him and Big Shot's five salespeople to communicate better with customers and the main office. The group spends much of its time out of the office on sales calls, and the PCS phones allow them to make and receive calls wherever they go. The phones also have built-in answering-machine and paging capabilities. Each line costs Big Shot $14.95 a month plus 20 cents a minute for calls. "It saves money for the company because we integrated the pager and the cell phone into one item" rather than having to purchase them separately, says Moore.

Moore also likes the improved reception and built-in security made possible by the digital network to which his PCS phone connects. So far, he says, the biggest limiting factor of PCS is that—for now—he can use his phones only within his local area. That should change as more PCS networks come on line.

For the first time, small businesses will soon be able to choose among "local" telephone companies rather than having to rely on one provider. Thus, phone companies have been strengthening their small-company divisions.

Cellular Providers Press On

Despite the spread of PCS technology, cellular-service providers aren't ceding the market. Last year, cellular companies signed up a record 9.4 million new subscribers, bringing the total to 33.8 million, according to the Cellular Telecommunications Industry Association, in Washington, D.C. Cellular-service providers are also preparing to go digital. That, coupled with greater customer awareness of cellular technology, may keep it at the forefront.

Cellular is no stranger to competition either. Most markets have two cellular providers offering services plus a number of resellers who pay a discounted rate for bulk air time over one of the cellular networks and then sell that time to subscribers. Each reseller has an exclusive agreement to sell time on a particular network, however, so customers are still locked into one network.

Cellular customer Steven Hopper has found an alternative. Hopper, president of Pratt Plumbing, Heating, and Air Conditioning, in Montvale, N.J., buys his cellular service from First Comm, a reseller that offers customers in upstate New Jersey a choice between competing cellular networks. Since First Comm buys its air time from other resellers, it is able to offer a variety of plans and prices.

"It would take me a lot of time to become educated about which plan was best," says Hopper, who prefers to get experts' recommendations. Pratt Plumbing will save $600 this year on its cellular service, he says.

Mike Pfeffer, First Comm's president, says customers such as Hopper will have even more choices once PCS is available in their areas. That's welcome news for small-business owners when it comes to obtaining new services, but making decisions about telecommunications-service providers of all kinds is likely to become more complicated.

Changes In Local Phone Service

For the first time, small businesses and most other customers will soon be able to choose among "local" telephone companies rather than having to do business with a single local provider. As a result, local telephone and long-distance companies have been strengthening their small-business-services divisions in recent months.

This customer-driven focus has allowed employee-communications consultant Janet Rechtman to bring together communication technologies for her firm, Deeley Rechtman Communications Inc., in Atlanta. Rechtman considers herself a heavy user of telephone services, for both business and personal matters. She uses a cellular phone to keep in touch with customers and the company's 11 employees.

Deeley Rechtman has contracted with its local carrier, BellSouth, to set up its voice-mail system. But instead of installing equipment in the firm's office to handle voice mail, BellSouth maintains the system on its telephone network.

Rechtman says it's important for her firm to keep up with telecommunications services that can help its business, but that's not easy to accomplish without a dependable source of expertise. "When you're a small business and you're covered up with work," she says, "it's very hard to find time to make rational decisions about these things."

The companies that succeed in a competitive marketplace will be those that help business owners such as Rechtman take advantage of both existing and new technologies. Analysts such as Forrester Research's Goodtree say business owners will be besieged with offers of competing packages and price plans.

It was hard enough for them to figure out the difference between competing long-distance providers. Now they will have to factor in their all-important local phone access as well as some services that weren't available to them before. Even so, small firms may come away the big winners if they're shrewd enough to strike good deals.

"The carriers know that the biggest fight of their lives is coming," says Goodtree. Telecommunications companies, in their drive to sign businesses to long-term agreements now, before the real competition begins, will likely offer incentives such as renewal bonuses and extra services, he says. Small companies, Goodtree advises, should make certain that service contracts contain the option of changing the deal once a competitor enters the local market.

"Knowing that the carriers are hungry today," says Goodtree, "a small-business person can leverage that to get deals that provide flexibility and the maximum discounts now." NB

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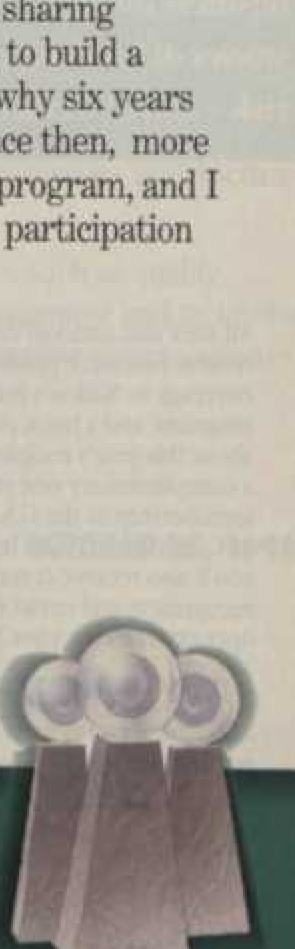
David E. Sams, Jr.
President and Chief Operating Officer
MassMutual – The Blue Chip Company



BUSINESS PROFILE

STEP 1

Name of Owner/Title ______

Company ______

Address ______

City/State/Zip ______

Business Telephone ______ Fax Number ______

Alternative Contact Name/Title ______

Brief Description of Products or Services ______

______

Type of Business

- ❑ Manufacturing
- ❑ Wholesale
- ❑ Services
- ❑ Real Estate
- ❑ Transportation
- ❑ Other (describe): ______
- ❑ Retail
- ❑ Construction
- ❑ Finance
- ❑ Communications
- ❑ Professional

Annual Sales (optional) ______ Number of Employees ______ Year Established ______

Source of application: ❑ Nation's Business ❑ First Business ❑ MassMutual Agent ❑ Business Colleague ❑ Other

Owner's Signature ______ Date ______

STEP 2

THE STORY OF YOUR CHALLENGES (500 words or less)

Please tell us about the major challenges that threatened your business—or opportunities you created. These may include new competition, loss of major client, changes in the industries/geographic markets you serve, loss of key personnel or capital funding, rapid growth, natural disasters, etc.

STEP 3

THE SUCCESSFUL SOLUTION (500 words or less)

Tell us how you made your business succeed. Please describe the resources and tactics you used to overcome your business challenge(s).

We are looking for insights into the management of your company's resources such as quality assurance, marketing, human resources, community relations, financial management and technology. Also detail the changes in your company's performance as a result of implementing your solution(s).

STEP 4

Please send completed nomination form and additional pages to:

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Hartford, CT 06101

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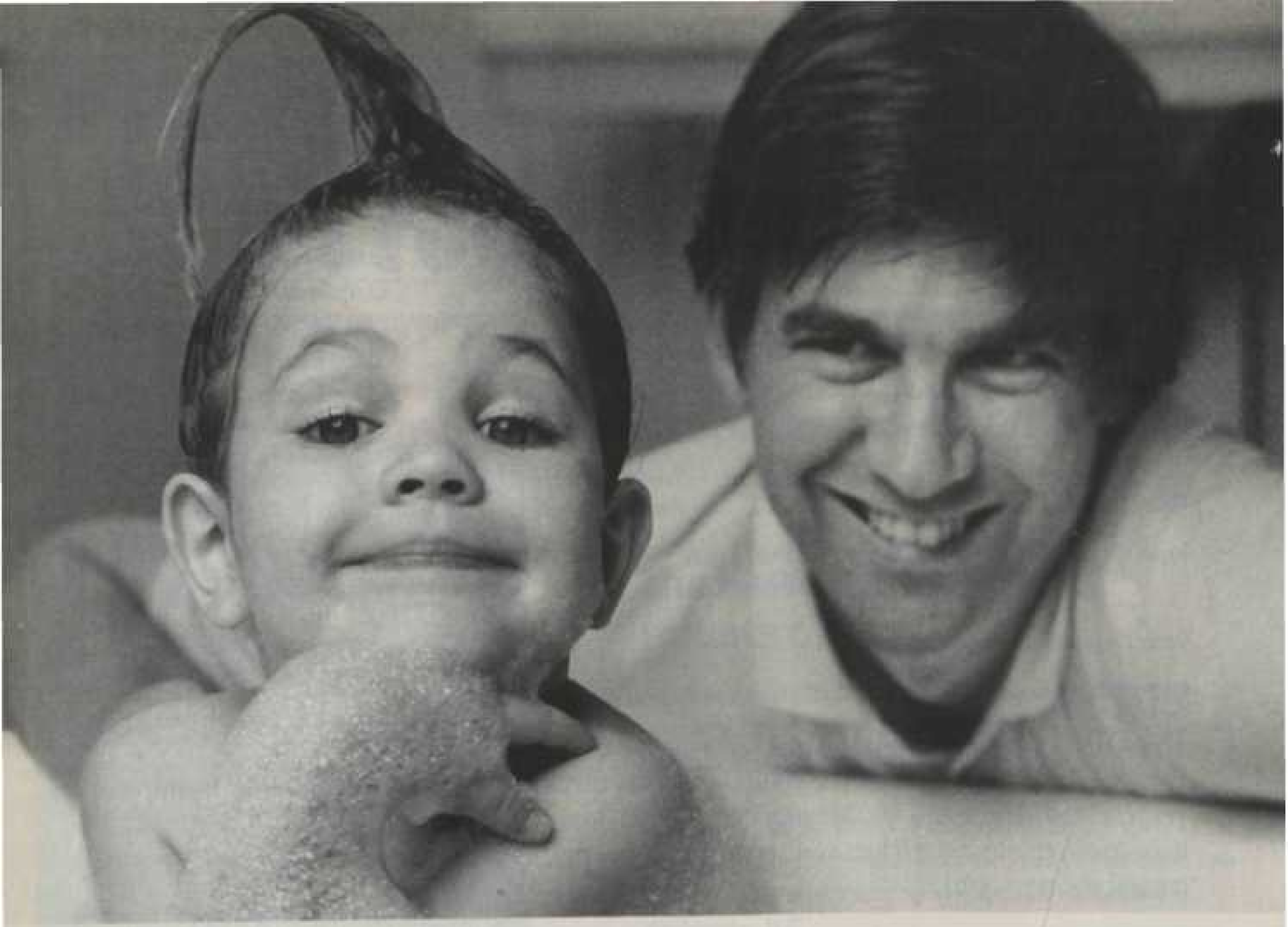

INSURANCE

Does Your Policy Have You Covered?

Spending a little extra for business insurance with key endorsements and higher coverage limits can save money in the long run.

By Barbara Etchieson

"All it takes is one claim—just one claim filed on an insurance policy that is inadequately written for your company's needs—and your business can be ruined."

Strong language, but it comes from a voice of experience. As an insurance adjuster for five years and an independent commercial agent in Texas for an additional 15, Jerry Hohensee has seen more than his share of small-business owners whose companies suffered because of insufficient insurance coverage.

"If these small-business owners had spent a little more money adding key endorsements and raising the limits of certain standard coverages when their policies were written," Hohensee says, "they could have saved themselves a lot of headaches and money in the long run."

Joe Favor, a longtime commercial agent in San Angelo, Texas, says that "most business owners come to us looking for the least-expensive insurance they can buy." For many, that turns out to be a packaged business owner's policy, known as a BOP. It provides property and general liability insurance.

BOPs are designed to meet the insurance needs of small offices, retail stores, and certain types of service providers.

For many small businesses, however, the "basic BOPs usually don't come close to covering all the property and casualty losses a business owner can potentially face," says Favor.

Certain types of businesses, such as landscaping companies, can't qualify for a BOP because of their specialized insurance needs, says Ann Hruska, an insurance account executive in Naperville, Ill. These companies must purchase another type of packaged policy, or they must select individual policies for property, liability, auto, and any other types of coverage they need, Hruska explains.

Regardless of whether your company qualifies for a business owner's policy, you and your agent should address the following issues before you buy business insurance.

The Costs Of Rebuilding

One endorsement you'll want to discuss with your agent is building-ordinance coverage. "Property owners need to be especially careful to include this language in their policies," says Greg Crouch, an independent risk manager in Austin, Texas.

Also known as increased-cost-of-construction coverage, this extra insurance comes into play when a building is damaged and, in the rebuilding, must be made to comply with updated city or county building codes.

"Most policies without this relatively inexpensive endorsement don't cover the costs associated with reconstructing a property to bring it into compliance with new code requirements," according to Crouch. "That means owners may end up thousands or even hundreds of thousands of dollars short when they file their claims, leaving them unable to afford to restore their businesses.

"In fact," adds Crouch, "that's exactly what could have happened to one of my clients if he hadn't carried increased-cost-of-construction coverage. This client suffered a large fire loss, and when he went to rebuild, he discovered it was going to cost $1 million to meet current code requirements. Without this extra coverage, he never would have made it."

A Security Blanket

Consider blanket coverage for your business-insurance plan if you own more than one piece of property. If you buy an insurance policy that provides separate coverage for each of several properties—known as scheduled coverage—you might be underinsured.

"If you have four buildings, each worth $1 million and covered under a $4 million blanket policy, you can apply the total amount of that $4 million coverage to a single property should a loss occur," says Crouch.

If you have a property policy with scheduled coverage—not blanket coverage—and one of your multiple properties is destroyed, he explains, the policy will pay only the individual value of each property as listed in the policy for that structure—a value that could be too low.

Too Little, Too Late

Even those who own only one piece of property should address the risk of underinsurance resulting from rising replacement costs and increasing property values.

Because of these factors, and because it's generally possible to have insurance on individual properties written to cover as little as 80 percent of the property's total value, unintentional underinsurance can occur in a very short time.

"Some business owners think they are saving money by covering only 80 percent of a building's value," says Favor. "But rising real-estate values and even escalating lumber prices can end up costing them much more money in the long run."

Says Hohensee: "Over time, replacement

costs and inflation can kill you, and you may not even know it's happening until you suffer a loss."

A thorough analysis of each property and your business as a whole by your agent and you before your insurance is written can help you increase the coverage limits and add the key endorsements your company needs to avoid underinsurance.

Stay In Touch

Be sure to keep your agent thoroughly informed about your business. If circumstances change, update your agent promptly, not just at policy-renewal time. "Changes in your business that lead to exposure changes in your insurance can have devastating effects in the future if you fail to mention them to your agent before you suffer a loss," says Hohensee. Such changes can include moving your business from an owned to a leased facility.

Don't Scrimp On Liability

Making such a move should trigger discussion of fire and liability protection. While fire-legal-liability coverage, as it is called, is included in general-liability policies, it usually has limits of $50,000 to $100,000.

"You need to be sure the limit on your fire-legal-liability coverage is high enough to cover the total value of the property you're leasing space in," says Illinois account executive Hruska.

"If you become legally liable for a piece of property through a lease," she says, "and don't raise the coverage above the standard limit, and then suffer a loss in a large office building or other property which is expensive to rebuild, you could be greatly underinsured and potentially liable to your landlord for a large amount of money."

Cover The Down Time

A great deal of money can also be at risk if another key endorsement is not considered at the time you take out your business insurance.

"Business-interruption insurance is something many, many businesses need, but some owners don't purchase it because they want to save that little bit of money [often $25 to $50 per month], only to have it end up costing them much more in the long run," says Favor.

Business-interruption insurance helps keep your business going even if you have been forced to shut down temporarily after suffering a loss.

"If a storm blows the roof off your building and it takes 60 days to repair, this endorsement can provide you with the money you need to meet your business expenses during that time," says Favor.

> "Just as no two companies are exactly alike, no two business owners have the same risk exposures."
>
> —Insurance Agent Jerry Hohensee

Determine Your Risks

"Just as no two companies are exactly alike, no two business owners have the same needs or risk exposures," says independent agent Hohensee. "But by finding a knowledgeable agent who not only will discuss these important additions to your business insurance but also will take the time to ask the right questions and really understand everything about you and your business, you'll go a long way toward protecting your business from uninsured losses." NB

Barbara Etchieson is a free-lance writer in Austin, Texas.

RETAILING

A Growing Outlet For Small Firms

Outlet centers are no longer exclusively for big manufacturers; small businesses, too, can get on the inside track for space.

By Roberta Maynard

Outlet centers seek *tenants with services that offer convenience, which is what Mitchell Goldstone of 30 Minute Photos, Etc. hopes to provide at this mall in Lake Elsinore, Calif.*

Move over, Ralph Lauren. Outlet centers aren't just for large, big-name apparel manufacturers anymore.

Although the national brands are still what pull in customers by the busload, there also are sales opportunities for smaller, lesser-known companies—makers of apparel and other products, and service businesses, too.

For small-business owners aspiring to enter the outlet world, the key to success is understanding how it has evolved.

What began as no-frills adjuncts to clothing factories in the Northeast became over the years a pervasive, professionally managed distribution channel known as value retail. But the idea is still the same: to sell factory seconds and product overruns at a discount.

Value retail has really taken off in the past 20 years, since the first multiple-tenant manufacturers' outlet center opened in Reading, Pa., in the late 1970s. It hasn't stopped growing. (See the chart on Page 46.)

About 325 factory-outlet centers dot the American landscape. Last year, they accounted for just over $11 billion in sales, up from $6.3 billion in 1990, according to *Value Retail News*, a unit of the International Council of Shopping Centers, the industry's nonprofit trade association, based in New York City. And that sales estimate doesn't even include the so-called off-price malls, which have a large but not predominant number of factory-outlet stores as tenants.

Despite their robust growth, outlets still account for less than 2 percent of U.S. retail sales, but they nevertheless have enabled many small businesses to thrive regionally, if not nationally.

An example is Big Dog Sportswear, based in Santa Barbara, Calif. Ten years ago it was a start-up clothing manufacturer; now it has 115 outlet locations nationwide.

Another quick grower is Music For a Song, a Marietta, Ga., firm that sells music on compact discs and tapes. It has expanded to 26 locations in just two years.

While the value retail business has always provided some opportunities to companies like these, a couple of emerging trends are likely to create still more. The first is the expansion of many existing centers. As outlets have matured as a distribution channel, the rate of new centers being opened has slowed. One reason is that much of the best real estate has been taken.

According to *Value Retail News*, the number of centers opened annually in the U.S. peaked in 1989 at 43. Last year, 22 were opened. Roughly the same number of openings is expected this year.

The trend is toward construction of larger centers and expansion of existing ones. The size of centers has increased in each of the past eight years to an average of 156,511 square feet of gross leasable space. (Off-price malls, by contrast, have upward of 1 million square feet.) The average tenant space in an outlet center is about 3,500 square feet.

The average number of tenants also has increased in the past eight years, by about 50 percent, boosting the chances for small, local businesses to get into outlet space.

At the same time, center developers are looking for ways to keep customers longer than the average stay of four hours. Small companies offering a product or service that will help do that have an advantage.

"There's definitely an opportunity for small companies that can help create a strong destination location," says Heidi Holwerda, vice president of marketing communications at Horizon Group, Inc., one of the largest outlet developers.

"Our goal is to keep people on-site longer," says Holwerda, whose company

is based in Muskegon, Mich. One way to extend customers' stay, she says, is by adding hotels, restaurants, movie theaters, and sports and recreation facilities.

Horizon, for example, recently signed an agreement to develop at two sites large aquariums that simulate a diving experience.

Meanwhile, most developers continue to add food courts, which once were absent from outlet centers. Kiosks, which offer another foot-in-the-door possibility for small companies, are also gaining acceptance.

Though the target shopper is female, outlet shopping tends to be a family event. Developers want tenants with services that offer convenience as well as attractions for the nonshoppers, says Randy Marks, president of Outlet Marketing Group, in Milford, Conn., and publisher of an outlet guide.

Aside from restaurants, services likely to be successful, he says, are those offering stroller and wheelchair rentals, gift wrapping, hair care, eyeglasses, and shoe repair.

Mitchell Goldstone, president of 30 Minute Photos Etc., is banking on the appeal of photo processing. He sees a good fit for his film-processing, photo, and portrait business at outlet centers, most of which are at or near tourist destinations. He hopes that people going to Disney World or Yosemite National Park, for instance, will buy film at nearby outlet centers and later get it processed there.

The five-year-old company, with just one location and under $2 million in revenues last year, is nonetheless jumping into value retail in a big way. With the signing of a single lease with a single developer, Goldstone will open stores in 65 outlet centers around the country this fall.

What Do Developers Look For?

Center developers look for tenants who are financially solvent and have a track record. But the real draw is a unique concept.

One example is 30 Minute Photos, with a proprietary film-processing system—and no outlet competitors. Another firm that meets those criteria is Coastal Cotton, in Hialeah, Fla.

Many outlet chains sell casual clothing for women, but few sell clothes that are 100 percent cotton, and it is there that Coastal Cotton has found its niche, says David Chang, the company's president. That niche has enabled Chang to open 12 outlet stores in four years and to attain annual retail revenues approaching $5 million.

In the days before the addition of food courts, Rocky Mountain Chocolate Factory offered something different—food. When the franchise company began opening outlet stores 10 years ago, hungry shoppers stood in long lines to buy the only edibles in the center. The products and the atmosphere kept shoppers coming back.

Outlets proved to be a successful venue for the Durango, Colo.-based company, which had annual revenues of $4 million when its first outlet store opened. The spending mentality that prevails in outlets—as well as the volume of foot traffic—helped sell candy, which is an impulse buy. Now, half of the company's 200 locations are in outlets.

Choosing A Location

Deciding where to open a store is a matter of cost and availability of space—as well as meeting the developer's need to provide the right brand mix and to retain a discount feel.

"There are [class] A, B, and C malls, just as in any retail environment, with everyone jockeying to get into the best ones," says Andrew Feshbach, president of Big Dog Sportswear. Rent at a class-A mall is significantly higher than at others, sometimes double, he says.

Among outlet malls, Cabazon, near Palm Springs, Calif., and Woodbury Common, in Central Valley, N.Y., about an hour's drive from the New York City area, are considered to be two of the most successful and desirable, though likely out of reach for small companies.

"A very small business would probably not get into a premium outlet with just one location," says outlet guide publisher Marks. "Small manufacturers *can* get into [centers] as long as their concept is in sync with what outlets want to be—stores that offer products at significant discounts."

As companies scout outlet locations, several factors should come into play, including the firm's product or service and its customer demographics.

Coastal Cotton's Chang targets mainly tourists—whose demographics he declines to identify for competitive reasons. That focus steers him to certain centers. For ease of operations, his first stores were near his manufacturing headquarters—a strategy recommended for newcomers to outlet retailing. Coastal Cotton opened its first 10 stores in the Southeast; its two newest are in California.

A consideration for manufacturers is the so-called sensitivity issue. Selling at reduced prices the same products that are sold at full price in downtown department stores and in regional malls can create friction with wholesale customers. That's why outlet centers have typically been built at least 20 miles from suburban regional malls.

Chang has experienced some problems in this regard. From the beginning, his approach was to share his plans with his wholesale customers. "We let them know where we were going to open [outlet] stores," says Chang, whose wholesale accounts sell to boutique-type shops along the East Coast.

To minimize conflict, he says, "you have to know your customer base and be strategic about choosing sites." Eventually, wholesalers got used to the idea, he says. "There's enough business for everyone."

Here are some other questions entrepreneurs should ask themselves when evaluating their potential for success in particular centers:

■ Is there a good fit with other brands and products in the center?

■ Who are the other tenants? Which are the major brands that will bring people in?

■ Is there a good fit demographically? Ask the developer for demographic infor-

mation about the outlet center's customers.

■ Is there enough business? Do your own foot-traffic test for your proposed space. Visit the center for a few hours—on weekdays as well as weekends—and measure the traffic flow.

■ What is the level of vehicle traffic? Check the center's proximity to population, the volume of tourists, and drive-by freeway traffic. One strong source may be enough. "If you get all three," Feshbach advises, "you really have a win-win" situation.

■ Is the center successful? Talk with tenants. Ask the developer for the center's sales per square foot. Check out the track record of the developer, especially if the project is new.

To obtain outlet space, it is best to contact a developer's central office—which handles all leasing—rather than individual center offices, although those are good sources of information.

Companies needing only a small space may find it is not readily available. Goldstone, of 30 Minute Photos, had trouble getting into outlets a few years ago because centers primarily had spaces of about 15,000 square feet to lease. But that is changing, he says. Smaller spaces—such as the 1,200-square-foot areas he has contracted to lease—are being offered.

Similarly, Rocky Mountain Chocolate often has to wait until a tenant leaves to get small-size space in a center. To get space more predictably, the company tends to go into new centers rather than wait for openings in centers that are fully occupied.

Some companies have approached outlet centers as an easy market to penetrate, but, as with any business, you have to have a good strategy, and you have to execute it well, says Andrew Feshbach, president of Big Dog Sportswear.

To learn about projects in the planning stages, ask developers for a project schedule. Developers begin leasing 18 months to two years before a project opens. Generally, by the time construction begins, only about 20 percent of the space is still available.

The Outlet Environment

Day-to-day operations in outlet malls, such as operating hours and lease arrangements, are similar to those in other retail environments. The typical length of a lease is five to 10 years, and lease terms are negotiable.

Leases for space in outlets sometimes contain clauses that specify the types of products that cannot be sold, according to Sheila Thompson, Rocky Mountain's director of franchise sales. From the developer's viewpoint, that protects other tenants and keeps the door open for future tenants, but it can limit existing occupants who want to add products.

Rent is usually lower in outlets than at other retail locations. The average cost to lease outlet space is about $15 per square foot. Typical rent at an enclosed regional mall runs from $20 to $40 per square foot, while downtown locations average $43, according to the International Council of Shopping Centers.

Sales in outlet stores are a little more seasonal, says Big Dog Sportswear's Feshbach. To offset that, his company complements its outlet business with catalogs and other means of distribution.

Feshbach has found that for his company, July, August, and December are generally peak times for outlet sales. April, May, October, and November are peaks for catalog sales, he has found, while March and April are strong wholesale months.

No One Said It Would Be Easy

In spite of industry concerns about overdevelopment, there is still evidence of growth. At the beginning of this year, there were 543 companies operating nearly 12,000 stores, according to *Value Retail News*. Those that had been in operation for at least one year had about eight more stores than the previous year, an average expansion of 12.1 percent in 1995.

Despite continued growth—or maybe because of it—value retail is a challenge. Small companies have to compete for space with established leaders as well as new entrants, including home-electronics firms Sony Corp. and Bose Corp.

"It's a real, viable business," says Feshbach. "I think people have approached it as something easy to do, but you need to be a savvy retailer." As with any business, he says, you have to have a good strategy, and you have to execute it well.

Says Goldstone, of 30 Minute Photos: "The key is a unique product, but all the most important elements in retail come into play—location, business plan, marketing plan, and [financing].

"One of the neat things about outlet centers," he adds, "is that the people are already there. You just have to draw them into your store." NB

To order a reprint of this story, see Page 75. For a fax copy, see Page 5.

The Inside Scoop On Outlets

These resources can help small firms seeking to get into outlet centers:

■ *Outlet Bound*, a twice-yearly listing of 377 outlet centers in the U.S. and Canada as well as outlet projects under construction. It includes locations and the stores in each center. Available for $7.95 plus shipping by calling the publisher, Outlet Marketing Group, Inc., at 1-800-336-8853. The publisher's World Wide Web site on the Internet is at *http://www.outletbound.com*.

■ *Value Retail News*, a monthly publication owned by the International Council of Shopping Centers, covers outlets and off-price stores. Subscriptions are $144 per year. Call (813) 536-4047.

■ *Products and Services Directory*, a listing of vendors to the industry, is also published by *Value Retail News*. The cost is $49. To order, call the number listed above.

■ Outlet conventions sponsored by *Value Retail News* will be held in October (location to be announced) and April 8-10 in Orlando, Fla. Outlet seminars will also be offered as part of the International Council of Shopping Centers' fall convention in New Orleans, Sept. 8-10. For information on these events call 1-800-669-1020.

Chuck Vasser and family

ENTREPRENEURSHIP

Young Entrepreneurs Make Their Mark

With enthusiasm and little trepidation, 25- to 35-year-olds are starting companies—sometimes with great success.

By Gary M. Stern

Staci Munic Mintz and her brother, Kenny Munic, were thinking of opening a restaurant three years ago. She was 26, with a degree in hotel and restaurant management from Michigan State University; he was 23 and had graduated from a culinary school in Paris after getting a degree in management from the University of Texas.

They were dining with their father one night when he asked a question that changed their lives.

"Stac, instead of opening a restaurant, why don't you start baking muffins and deliver them to coffeehouses and espresso bars?" asked Herman Munic, a successful Chicago restaurateur.

"Dad, that's a great idea," Staci replied, "but only if I can do low-fat baking."

In 1994, the brother and sister launched Little Miss Muffin, which specializes in low-fat, low-cholesterol muffins and other baked goods. The company was started with $2,000 in initial capital, for baking pans and supplies. In 1995, Little Miss Muffin had $1.5 million in revenues, and it now sells to more than 400 clients in the Chicago area. The owners are exploring the possibility of going national.

Jennifer Barclay, who previously had sold a few of her handmade T-shirts at local art festivals, was attending a wholesale fashion show in New York City in 1986 when she unexpectedly booked $110,000 in women's clothing orders. Despite the suddenness of the opportunity, Barclay, then 18, wasn't flustered by having to raise the capital for materials, hire workers to manufacture the clothes, and fill the orders.

"I felt no fear," says Barclay, whose company, Blue Fish Clothing Inc., in Frenchtown, N.J., produces handmade apparel from natural fibers. "If you overanalyze everything, you see how difficult it could be. It holds people back from [acting on] the wonderful ideas within them." Blue Fish had $9.6 million in revenues in 1995—up from $7.7 million in 1994—and employs 200 people.

These twentysomething entrepreneurs are no aberration. A recent study of 1,200 business owners nationwide found that the highest percentage of start-ups was in the 25-to-35 age group. The study was conducted by Paul Reynolds, the Paul T. Babson professor of entrepreneurial studies at Babson College, in Wellesley, Mass. Reynolds says that the number of start-ups was "very low for people younger than 25, and [after age 35] drops off until the mid-40s, and after 55 plummets to zero."

Entrepreneurs in the 25-to-35 group are prevalent because "they are old enough to have some experience and resources and young enough to have [the required] energy," says Reynolds.

The study also found that these entrepreneurs generally were high-school graduates but didn't necessarily have college degrees. Most were from middle-income families and had lived for five to 10 years in the area where they started their business. "It takes a while to know where to get customers and suppliers," notes Reynolds.

Baking low-fat, *low-cholesterol muffins for coffeehouses and other clients in the Chicago area was a recipe for success for Staci Munic Mintz and her brother, Kenny Munic.*

The Entrepreneurial Option

Experts say that corporate downsizing has also contributed to an increase in the number of people in the 25-to-35 age group who turn to entrepreneurship.

Bruce Phillips, director of the Office of Economic Research at the U.S. Small Business Administration, says that the options for many workers in this age range are limited to working for a small firm or starting their own.

"Large firms in America, with a few exceptions, aren't doing much hiring," says

Gary M. Stern is a free-lance writer in New York City.

Phillips. "The incentive for Generation Xers [17- to 30-year-olds] to start a small firm is greater than it has ever been."

David Birch, president of Cognetics Inc., an economic-research firm in Cambridge, Mass., attributes the rise in the number of young entrepreneurs to a change in the business culture.

When he was in college in the 1960s, more than 500 companies regularly recruited on campuses around the country, Birch says. Soon-to-be graduates, knowing they might receive several offers and feeling that they were guaranteed jobs, were choosy about which company to join, he says. But "that all dried up [with corporate downsizing] in the 1990s," says Birch.

That helped create a generation of young entrepreneurs who are like "5-year-olds on ski slopes tearing down the hill because they don't know what to fear. These entrepreneurs have no idea what failure is," says Birch. Meanwhile, he says, "the 45-year-old is scared to death, knows what mistakes can be made, and is terrified."

Using Their Knowledge

Although starting a manufacturing business can require millions of dollars worth of equipment, it's possible to launch some other types of businesses for less than $10,000, says the SBA's Phillips. He notes that many of the start-ups of young entrepreneurs are "knowledge-based businesses" involving services such as editing, telemarketing, public relations, or selling mortgages by phone—enterprises requiring a computer and fax machine but minimal capitalization.

Mark Rice, director of the Center for Technological Entrepreneurship at Rensselaer Polytechnic Institute, in Troy, N.Y., says that he has seen an increase in the number of entrepreneurs under 30 who launch information, technology, and communication companies, ranging from software developers to firms that create sites on the Internet's World Wide Web. "This generation grew up with information technology," notes Rice.

Annette Quintana, for example, was a 28-year-old working at a small technical-services company in 1990 when, after a run-in with her employer, she decided she was ready to embark on a new career. Her 29-year-old sister, Victoria, was a sales manager at a major telecommunications company who had seen many of her colleagues laid off, and she didn't want to stay around to get a pink slip herself.

Drawing on Annette's savings of $20,000 and helped by their father, who co-signed for a $35,000 line of credit, the Quintana sisters founded Excel Professional Services, a computer consulting business in Greenwood Village, Colo. In 1990, the company grossed $250,000. By 1995, gross sales had risen to $15 million.

What began as selling *a few handmade T-shirts is now a $9.6 million women's apparel business for Jennifer Barclay of Blue Fish Clothing, in Frenchtown, N.J.*

"People overrate the amount of education and/or background that's important for starting a business," says Annette Quintana, who oversees Excel's financial, strategic, and technical side while her sister manages operations and personnel.

"I don't think you ever get the kind of experience required to be an entrepreneur except by doing it. . . . It's more a matter of desire and mental fortitude," says Quintana, now a seasoned entrepreneur at 34.

No Fear Of Failure

Mintz, of Little Miss Muffin, underscores Birch's view that many young entrepreneurs lack fear. "There was never a fear factor involved," she says of starting the company with her brother. "What's the worst thing that could happen? If we failed, we would go out and get a job."

When Jennifer Barclay came up with her $110,000 worth of orders 10 years ago, she realized that she couldn't make 6,000 pieces of clothing in her father's garage, where she had printed the T-shirts that she sold at art fairs.

So she forged ahead, never letting failure cross her mind. With purchase orders in hand, she managed to find financing and—with the help of friends who were craftspeople—fabric suppliers, pattern makers, and hand-dye artisans.

She enlisted the help of her father, a builder and renovator, who bought an old grist mill in Frenchtown, which he leased to her at a rent she could afford. He also loaned her $4,000 for materials.

Bankers and other business people tried to discourage Barclay—first from launching her company and later from expanding it. Bankers balked at lending her money because she didn't have a track record. "It's always a bunch of men in suits saying, 'You can't do this,'" says Barclay, who adds that her drive was fueled by the negativity.

Young entrepreneurs often choose to make or sell a product that they are passionately committed to and that reveals their core values. Mintz, for instance, says that starting a firm to sell low-fat, low-cholesterol muffins symbolized "everything that I believe in. It's about eating food that makes you feel happy and satisfied but doesn't make you fat. It's about embracing life." Barclay says that Blue Fish is not only about clothing but about "creating a community of people who can make a quality

product, enjoy what they do, and achieve personal success."

Young entrepreneurs also may have an advantage in staying in touch with consumer trends. Little Miss Muffin's products, for instance, appeal to the increasing number of consumers who want baked goods that are tasty but not cholesterol-laden or fatty. And Blue Fish Clothing's handmade designs attract customers who reject the mass-produced look and are willing to pay more for something different.

Less Talk, More Action

MBA programs stress the necessity of writing a business plan and conducting market research before starting a business, but many youthful entrepreneurs shorten or even eliminate the planning stage and plunge ahead.

> **"We were brought up to believe that it's better to make 50 cents for yourself than a buck for someone else."**
>
> **—Staci Munic Mintz, Co-founder, Little Miss Muffin**

Reynolds says his study showed that entrepreneurs aged 25 to 35 typically "make quick decisions. Within six to nine months [of getting an idea for a company], they have figured out whether the business will work," and if they believe it will, they launch it.

Most young entrepreneurs were influenced by studying a business book, reading small-business magazines, or getting advice from a mentor, Reynolds' study found.

What typically sustains their enterprises, more than a business plan, is the founder's vision. Barclay, for instance, believed so strongly in her one-of-a-kind clothing designs that she never created a business plan. And when Annette Quintana co-founded Excel Professional Services, her impetus was to provide "computer consulting services at reasonable rates and to deliver them in a way that built upon relationship and a commitment to quality service." That idea still drives the company six years later.

Though young entrepreneurs often are regarded with skepticism because of their lack of experience, their youth can be an advantage, experts say. They may be more ready to invest sweat equity in a business than would someone in midcareer who has been downsized out of a corporation, says the SBA's Phillips.

Sweat equity yielded dividends for Mintz and Little Miss Muffin. "It was getting in there and doing the work, mixing the batter, scooping the muffins, baking, cleaning up" that ultimately paid off, says Mintz. As product demand increased, the company adapted. "If we get busy, we hire another person," Mintz says. She is still the company's only sales representative—for all 400 accounts—but she may hire another rep.

Helping Hands For Risky Beginnings

Although the success of these companies was built largely on the efforts of the young entrepreneurs themselves, parental support can make the difference between staying in business and failing. Mintz's father provided kitchen space in one of his restaurants for Mintz and her brother to bake muffins, cutting their overhead costs in the first few difficult months.

The Quintanas' father, an entrepreneur himself and a cattle rancher, provided inspiration and guidance in addition to co-signing for the line of credit.

But even with parental help, many start-ups fail, whether the founder is 20 or 40. SBA studies show that 24 percent of start-ups dissolve within two years and that 52 percent vanish within four years. Phillips notes, however, that "your chances of surviving [long-term] go up by 20 to 30 percent if you expand within the first couple of years."

After its beginning in 1986, Blue Fish Clothing increased its revenue at a rate of 35 percent a year by first selling its wares at trade shows, then opening three retail stores in 1987, '89, and '94. It began selling its clothes through Nordstrom and Neiman Marcus department stores in 1987 and now sells to more than 600 retail stores and boutiques.

The company completed a direct public offering of stock in May, selling 770,000 shares at $5 each. It plans to use the $3.85 million to improve its computer systems and open more retail stores.

The trait that is perhaps most evident among young entrepreneurs is a dedication to personal success. "We were brought up to believe that it's better to make 50 cents for yourself than a buck for someone else," says Mintz.

Many young people share that view. And despite the numbers of failures among start-ups in general and the inexperience of young entrepreneurs, many of them are making money for themselves and, in some cases, for their shareholders. NB

To order a reprint of this story, see Page 75. For a fax copy, see Page 5.

MANAGING

Not Just A Meeting; It's An Adventure

By Cynthia Scanlon

Since 1970, the law firm of Snell & Wilmer has held retreats for its employees to discuss topics such as corporate law or alternative dispute resolution. The retreats, like those of many other companies, usually involve an afternoon of intensive seminars and meetings. They're educational, to be sure, but also pretty sedentary.

Last summer, however, the firm decided to try a new twist. It gathered a group of about 50 lawyers from its offices in Salt Lake City, Phoenix, and Irvine, Calif., for a wilderness retreat outside Tucson, Ariz. The lawyers spent the afternoon doing a series of team-building exercises; in one, for example, eight people on a single pair of long skis had to walk through a slalom course.

"Everyone had to pick up their right leg at the same time and then their left leg," says James Condo, coordinator for Snell & Wilmer's commercial-litigation group. "We learned to rely on each other and work together to bring our individual talents to the team to solve a problem."

The concept of team building through this kind of retreat—which may include adventure games, water rafting, rock climbing, unconventional brainstorming sessions, and countless other possibilities—has been around for years, but it is gaining in popularity among small firms such as Snell & Wilmer, according to companies that organize such retreats. They say that small-business owners and managers are recognizing that giving employees a hands-on experience can help build cohesiveness within the company.

"Retreats can create a shared history for people," says Matt Weinstein, founder of Playfair, Inc., a Berkeley, Calif., company that specializes in team-building events for retreats and meetings. "When employees go back to work, they can relate to each other better because they have had interactive experiences with one another."

Group Planning Specialists Inc., a Seattle-based company that plans retreats and meetings, promotes the importance of getting employees together away from the office, especially in unusual surroundings. It has helped numerous companies build teams through events such as scavenger hunts, sales meetings at museums or mansions, and even a cocktail party at the 19th Green bar at Pebble Beach Golf Club, in California.

"Whether you have 20,000 employees or two employees, interacting is so different outside an office atmosphere," says Teiry Furman, president of Group Planning.

Cynthia Scanlon is a free-lance writer in Tempe, Ariz.

PHOTO: GROBERT HOLMGREN

Playfair, Inc. founder *Matt Weinstein, right, and staff members—from left, Ritch Davidson, Terry Sand, and Fran Solomon—do an exercise developed by the firm in which crafts materials are used to design a sculpture representing a company's vision.*

Charge Of The Retreats

Companies are putting more meetings and retreats together than ever before. According to Meeting Professionals International, a Dallas-based trade association of meeting planners, 1996 will be the strongest year yet in the meeting and convention industry, with 73 percent of companies expected to hold more meetings this year than last. Twenty-eight percent of associations are expected to do the same.

Wilderness retreats appear to be gaining in popularity among small businesses, which say such getaways help to build cohesiveness.

Along with adventure weekends or days, computerized multimedia, videoconferencing, and special-effects techniques are expected to be used more widely to give meeting getaways a new and exciting element, according to Meeting Professionals International.

The costs of retreats can vary widely, but Furman estimates the average cost for a one-day retreat at $100 per employee. That usually includes one meal, retreat activities, and local transportation.

An overnight retreat can run about $200 per employee, Furman says; the price can skyrocket if a company decides to splurge.

The Net Results

At Snell & Wilmer's retreat—which was arranged by Wilderness Adventures, of Phoenix—the lawyers' favorite exercise involved a net with various sizes of holes in it. "We had to pass each lawyer through the net, and we couldn't use the same hole [more than once]," says John Bouma, the firm's chairman. "So we had to figure out who would fit through what hole, who could lift whom, all the while remembering not to leave the biggest until last because there would be no one left to help him through."

Adds Condo, "It was an opportunity to put the concepts that we've been working on here at our firm into practice."

A retreat need not be off-site to be successful, however. Strategic Events International, a retreat-planning company in Boston, has used a popular exercise, developed by Playfair, in which a client company's employees are kept on-site and given arts-and-crafts materials—such as balloons, cardboard, felt-tip markers, glue, and Silly Putty—to carry out an unusual assignment.

"People come together to design sculptures of their company's vision," says Ronli Berlinger, manager of client services for Strategic Events International. "The sculptures demonstrate what employees think the company's vision is or where it should be going." Once finished, the sculptures are put on display in a "gallery" at the company to help encourage discussion about the firm among employees.

Cooperation And Survival

Some companies like to challenge their employees by creating retreats that put them in unusual situations. Last year, Kevin Reilly, vice president of Richardson Electronics, a 600-employee electronic-components and semiconductor firm in LaFox, Ill., took the 21 technical professionals in his division on an outdoor retreat that simulated a plane crash.

The employees were divided into four teams, and each team was given the following scenario: "It's mid-January, and your plane has crashed in the mountains 90 miles from civilization. The supplies you were able to recover include 20 feet of rope, a gallon of water, three candy bars, four matches, a coat, and a blanket. Rank the items in order of importance, and then determine how to survive and be rescued."

Says Reilly: "We run through a survival exercise once a year. You really can't do well in the survival exercise unless you can figure out how to work together. And I believe there is no way to be successful in the long term without being successful with group thinking."

Possible Drawbacks

Although team building is strongly embraced by companies that believe their bottom line depends on the cohesiveness of their work force, not everyone is a

complete convert to the adventure concept.

Janice Borovay, president of PEP Enterprises, a Phoenix-based company that plans meetings and conferences for businesses around the world, points out that there can be drawbacks to adventure retreats.

Lawyers from Snell & Wilmer *take part in an exercise during a retreat. Blindfolded participants, helped by sighted "guides," have to move a milk crate containing a can of water—representing radioactive isotopes—from one marked area to another.*

"You have a lot of people who are happy they did it when it's over, but the anxiety they go through before the program is difficult," she says. "It can be frightening. People feel overwhelming dread that if they don't climb that telephone pole, they are going to have a problem with the people they work with. They fear that if they don't do it, they will lose their job."

Borovay says that the physical nature of adventure retreats can also be daunting to employees "in their 40s and 50s who have made their careers and might be asking, 'Why am I doing this?' "

Taking The Plunge

Sometimes, however, a company that was reluctant at first to try team building through a wilderness retreat will go ahead with one and be glad that it did. One such firm is Ceavco Audio Visual Co., in Lakewood, Colo. Ceavco sells, rents, and services television production equipment and audiovisual systems.

In 1987, Ceavco had 18 employees and a president, Jack Emerson, who was concerned that the company was unprepared for change. But Emerson had been hesitant to subscribe to the wilderness-retreat concept for team building.

Then he decided to take a chance and spend the time and money to send his entire work force through a wilderness program created by AON Change Management Group & Consulting—then known as Pecos River Learning Center—based in Eden Prairie, Minn.

"We spent one day in an outdoor ropes course, jumping off a cliff with a zip line and climbing poles," says Emerson. "Then we spent one day inside doing a variety of group challenges. The last half day was personal-growth time." Then the employees brought what they learned back to the office.

Over the years, says Emerson, his workers have continued to participate in the AON program, and they meet weekly to keep the "Pecos River spirit" alive.

Since 1987, Ceavco has gone from 18 employees and $3 million in annual revenues to 37 employees and $10 million in annual revenues. Emerson partly credits the wilderness-retreat experience for his company's growth.

Hersch Wilson, vice president of AON, says his company is acutely aware of the peer pressure and fear that many employees who take part in a wilderness retreat may experience.

"We set up a culture of choice," says Wilson. "We do everything so that people understand that the task is to go as far as you can."

For some, Wilson says, that may mean simply putting on a harness or placing their hands and feet on the rung of a ladder.

Asking The Right Questions

Playfair's Weinstein agrees with PEP Enterprises' Borovay that companies need to exercise caution when developing and implementing their retreats.

"Change doesn't happen overnight," he says. "Change is a series of very slow steps that need to be carefully managed and well thought out. You can't throw people into scary situations, especially without consent or advance knowledge."

Experts advise companies thinking about a retreat to set criteria on what they want to accomplish. Team leaders should ask themselves questions such as: What kind of interaction do we want? What level of activities can we all participate in? How can we build a foundation to begin a dialogue that can be carried back to the workplace?

Then all the answers should be written down. "If a company doesn't have written objectives, it is wasting its money," says Group Planning's Furman.

A recent survey by Meeting Professionals International of companies that have held retreats or off-site meetings found that more than half of the respondents said they measure their results against those objectives to track their return on investment.

As the popularity of team-building retreats grows among small businesses, companies that take the time to plan their retreats properly will be way ahead of the game.

Playfair's Weinstein—who has written a book, *Managing to Have Fun*, (Simon & Schuster, $21) about team building and enjoying work life and the workplace—says that taking employees on a retreat or simply recognizing their contributions to the organization is serious business. "Company managers are starting to realize that if you push people toward an end but you don't support, reward, or recognize them, in the end they will burn out," he says.

Borovay agrees and points out that small companies that create an atmosphere of cooperation up and down the organization through a combination of re-engineering, knowledge-based management, and ongoing teamwork programs will have the most success at attaining the teamwork concept and keeping it alive.

"In a small business, management has more of an influence on the entire company," she says. "The leadership of these companies can continue the feeling of what's been learned in the team-building process" by working on team building every day.

"In that respect, these programs could be very successful," says Borovay. "But it has to be ongoing—that's the key." NB

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Family Business

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OBSERVATIONS

Preparing For The Tests Of Company Ownership


PHOTO: T. MICHAEL KEZA

By Sharon Nelton

If you own a business, it's going to have some impact on your spouse and children.

That's the message put forth in a new book by Azriela Jaffe, *Honey, I Want To Start My Own Business* (HarperBusiness, $23). Jaffe wrote the book after she and her husband each took a turn at entrepreneurship and bumped head-on into numerous and difficult family and marital issues. Her advice: Put together a family plan, just as you would a business plan, to help protect your family and your relationship with your spouse from the unexpected hardships of small-business ownership.

The beauty of this book is in the specifics. Jaffe, founder of The Critical Link, a Bausman, Pa., business that coaches entrepreneurs "and their intimate partners," offers tools that couples can use to explore and discuss troubling issues. Self-tests and exercises cover such topics as identifying your attitudes toward financial risk (would foreclosure on your primary home be "no big deal" or totally intolerable?), ways to maintain closeness with your spouse or meet the needs of your children, and the ability of a couple to communicate.

Jaffe doesn't stop with assessment, however. Where skill levels might fall short, she provides techniques and ideas for making them better. Anticipating that there will be conflicting attitudes, she offers a variety of practical compromises from which a couple might choose.

Some couples find their marriages strengthened by the experience of working together as business partners. Jaffe writes of one business owner who said, "The first time I saw my wife give a presentation to our board of directors, I was stunned by her beauty and power. ... I appreciated her in a whole new way."

But others succumb to worries about money, lack of personal time, and other hazards of business ownership, and their relationships suffer. In one chapter, Jaffe explores how to keep the romance alive and suggests a number of romantic gifts that don't cost money.

Although the book is ideal for a couple before a business is launched, it's also useful for new or longtime business owners who can use some help in creating more harmony and mutual support between family and business.

"Business responsibilities place a strain on family life," writes Jaffe. "Interviews with experienced entrepreneurial couples reveal that even those who prepare complex business plans often overlook the day-to-day details of caring for a family while running a business. You may have the big picture all figured out, but it's the small stuff that can sometimes cause your business or family to collapse. No detail is too small to prepare for."

The Genuine Articles

A virtual encyclopedia, the *Family Business Sourcebook II* is an oversized, 739-page collection of some of the best articles ever written about family business. The articles were collected from *Family Business Review*, *Harvard Business Review*, *Nation's Business*, and other sources. They cover such topics as succession, strategic planning, gift and estate taxes, family relations, women in family businesses, and internationalization.

The authors—some of the best-known experts in the field as well as some business owners—include Ivan Lansberg, David Bork, Malcolm S. Forbes Jr., Colette Dumas, and Léon Danco. An expanded edition of a collection originally published five years ago, *Sourcebook II* was edited by Craig E. Aronoff and John L. Ward, two frequent contributors to *Nation's Business*, and Joseph H. Astrachan, of the Kennesaw State College Family Enterprise Center.

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MARK YOUR CALENDAR

Aug. 6, Rosemont, Ill.

The "Estate Tax and Family Business Planning Update," a two-hour seminar, is free to CPAs and $25 for others. Contact Bradley K. Walton of the MassMutual Family Business Initiative at (312) 380-8700, Ext. 313. Ask about additional dates.

Aug. 13, St. Louis

"Effective Leadership in the Family and in the Family Business" is the topic of a seminar sponsored by the Family Business Forum of Southern Illinois University at Edwardsville. Call (618) 692-2668.

Aug. 23-25, Sea Island, Ga.

The 10th annual "Family Business Forum Retreat" features *Nation's Business* columnist John L. Ward. Call the Family Enterprise Center at Kennesaw State College at (770) 423-6045.

Sept. 17, Toledo, Ohio

"A Real-Life Case Study: The Business and Estate Planning Process" is a seminar sponsored by the University of Toledo Center for Family Business. Call Debbe Skutch at (419) 530-4058.

Sept. 18, Meriden, Conn.

"Family Boards: How To Make Them Work" is a seminar featuring corporate psychologist Sam H. Lane. Call the University of New Haven Center for Family Business at (203) 932-7421.

Sept. 19, Philadelphia

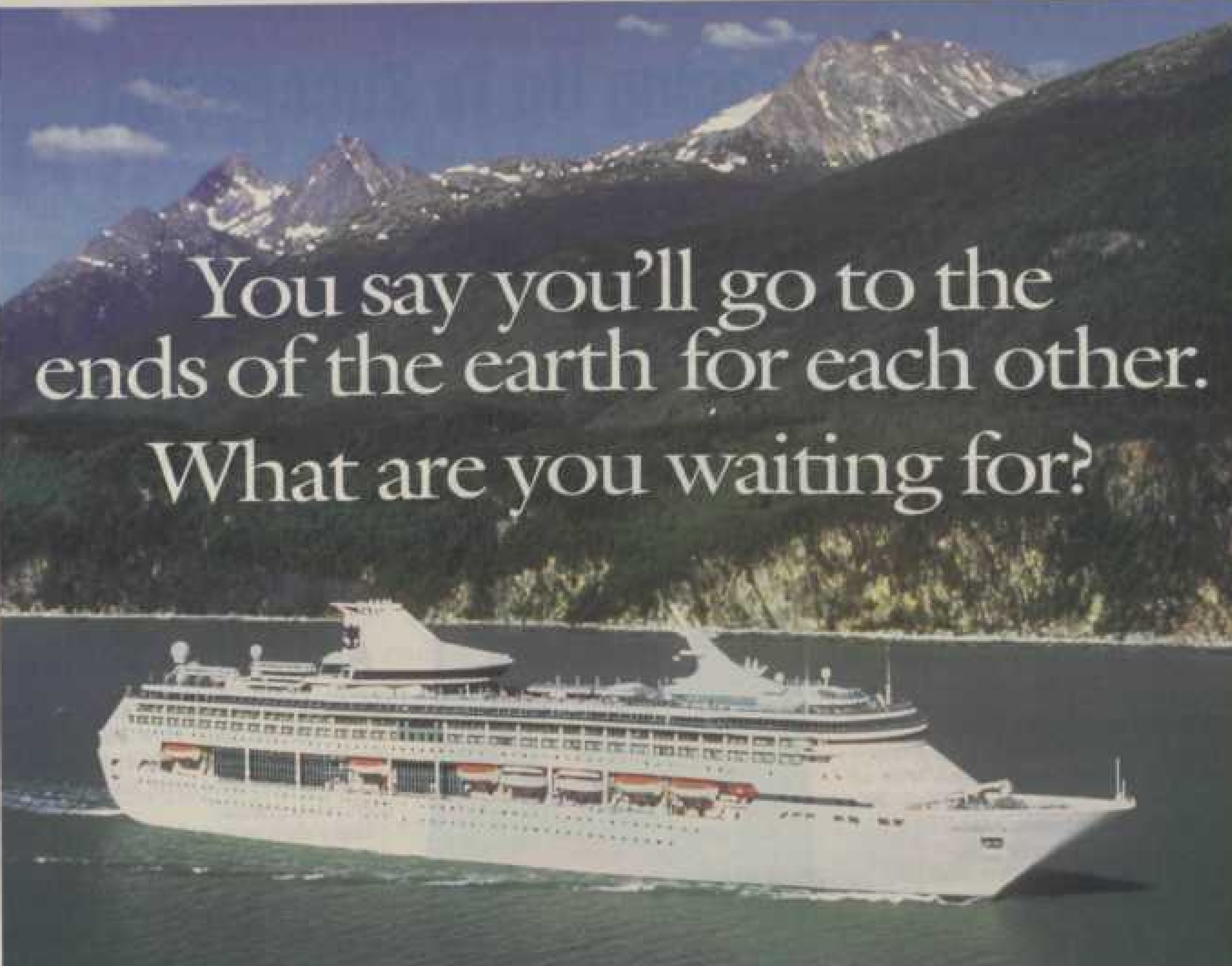
"Developing Competencies and Commitment: A Third Generation Perspective On Preparing Successor CEOs" is a breakfast seminar sponsored by the Delaware Valley Family Business Center; call (215) 723-8413.

Sept. 19, Farmington, Conn.

"Six Questions You Must Answer To Succeed in Your Family Business" is a daylong seminar sponsored by the University of Connecticut Family Business Program. For information, call (860) 486-4483.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*



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Case Study: Facing Up To Succession

"This company has been my life," says Milton Byers. "I need to think about retiring, but I don't know where to begin."

Milt, 67, still gets excited when he tells the story of how Byers Trucking began. With his wife, June, and three small children to support, he had more ambition than funding. Now, 35 years later, with the help of his three biological sons—Michael, 42, Steve, 39, and John, 36—and a "psychological" son, Bob, 37 (John's friend since childhood), Milt has grown the business to annual sales of $30 million.

As the business expanded and family life received less attention, June's support and understanding turned to resentment and bitterness. The fact that her sons gave the business as high a priority as did their father added to her resentment, and she divorced Milt 10 years ago.

Now Milt sees similar resentment building in his sons' relationships, and he does not want them to end up like him—wealthy but alone.

Each of Milt's sons has developed his own expertise: Michael is adept at sales, Steve is a skilled mechanic, John does all the scheduling, and Bob is the company's chief financial officer.

Milt had always assumed that Michael would succeed him as president, but Steve and John have each expressed an interest in running the company. Milt has put off deciding who should succeed him and how the company could be divided. "I guess I can't put these decisions off anymore," he says. "What is the best way to go about this?"

ILLUSTRATION: TROY THOMAS

Response 1

Start With Open Discussion

Milt needs to design a business-succession plan that dovetails with a future ownership plan. First, he should hold a family meeting to discuss his concerns with all key players, including spouses. While Milt will decide the ultimate course of action, the family needs to participate.

Milt may not need to select one successor while disappointing the others. Instead, the family could explore a team approach to management—for example, a three-tiered system. On the first tier would be decisions the appointed or elected manager (or possibly key group) could make—such as authority to make day-to-day decisions and to expend up to a certain dollar limit. The second tier would consist of decisions the board would make, such as building a new warehouse. The third tier would include decisions the owners should make–for example, whether family members should build the warehouse and lease it back to the company.

It is critical to implement any new management plan as soon as possible. This will enable Milt to revise his succession plan as needed before relinquishing the reins.

Ownership and succession need not match. Milt's estate plan would typically leave his assets equally to his three sons while allocating management control as dictated by business needs. Milt's affection for Bob should also be considered in deciding who will be allowed to purchase or inherit stock.

Finally, perhaps some restructuring of the sons' responsibilities or hiring extra help would lessen the toll on their marriages.

Harris L. Sherman, president of The Sherman Company for Family Business, a consulting firm in Irvine, Calif.

Response 2

Avoid Making An Obvious Choice

Milt faces three critical challenges: Who should succeed him? How and to whom should ownership be transferred? And how can he help his sons avoid his mistakes in their relationships?

Many owners have the greatest difficulty with the first challenge. The trick is to avoid the trap of automatically selecting the oldest son, which inevitably leads to resentment. Instead, Milt should identify the knowledge, abilities, characteristics, and experience necessary for leading this firm into the future. Then he and his sons will see that anyone lacking in critical areas is not in the running.

Possibly an outside president is required until a son is adequately prepared for the challenge. This would let everyone evaluate themselves in light of the requirements.

Once the sons understand the demands on a president, they may opt not to take the position. Nevertheless, each son must identify and openly communicate his values, needs, and wants regarding family and business. A family retreat, including wives, is an ideal forum for discussing these priorities.

Finally, Milt must determine how and when to distribute his shares. His estate-planning needs are an integral part of this decision, as are his views on sharing ownership with someone outside the family—in this case, Bob.

Too often, business owners take the "easy" way out by dividing everything into equal parts. While this may save an owner short-term stress, it often creates problems for the next generation. Gaining a better understanding of each son's aspirations should help Milt with this decision.

William Valutis, president of Family Business & Directions, a consulting firm in Williamsville, N.Y.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.

TOP-RATED BUSINESS PRODUCTS!

Nation's Business readers have selected their TOP 10 business products in the only way that counts... with their wallets! Through their purchases they've told us that these courses, documents, and strategies have helped them save time, generate income, and foster better customer and employee relations. In general, they've said that many of the products on the following pages have helped their businesses grow and prosper.

Listed below are the TOP 10 to serve as a guide for your own purchases. And we've introduced seven new products to our regular offerings, three of which are featured on this page. Remember that every product shown in the grouping has undergone rigorous screening before it appears in Nation's Business. Remember, too, that every product we offer carries our 30-DAY SATISFACTION GUARANTEED pledge: If for any reason you decide to return a product within 30 days of receipt, you'll receive a complete refund or cancellation of your credit card charge. Order your examination copies today!

TOP 10 HONOR ROLL

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BizPlan*Builder*
(business plan development)

The Power of Customer Service
(enhanced customer satisfaction)

Up Your Cash Flow
(cash needs fulfillment)

38 Proven Ways to Close That Sale
(sales solutions)

50 Ways to Keep Your Customers
(customer retention)

Legal LetterWorks
(customizable forms, contracts, agreements)

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Full descriptions inside. Order now!

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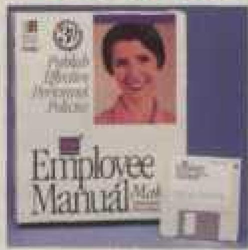

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Stop problems before they occur by creating a company-specific manual that details your policies, procedures, and benefits. With over 140 ready-to-customize documents to choose from, you'll not only satisfy legal requirements when you give each employee a manual, you'll have better informed (and happier) employees and managers... and that means a smooth-running business. This is a *must* for anyone with five or more employees.

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Take the guesswork (and the agony) out of borrowing by matching your needs with firms who *want* to lend you money or invest in your company. Simply type in your industry, location, and the amount and type of capital required, and within five minutes you'll have a list of venture capital firms, small business investment companies, commercial banks, equipment lessors, factoring firms, and asset-based lenders who are looking for companies just like yours! Don't ever be put off by a local bank again.

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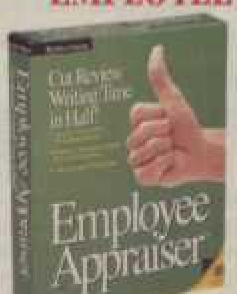

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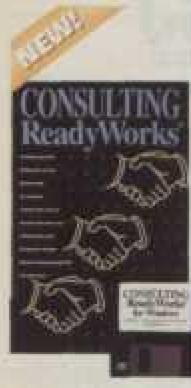
COMPUTER LETTERS, FORMS, DOCUMENTS, AGREEMENTS



Expert advice and forms for starting and running a consulting business.
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Start generating income from the moment you start your business. 150 forms that help you calculate fees, send winning proposals, write your own brochures and sales letters, create contracts, and more. This program also explains what to do about slow-paying clients, how to dramatically increase business from existing clients, and how to get free publicity.

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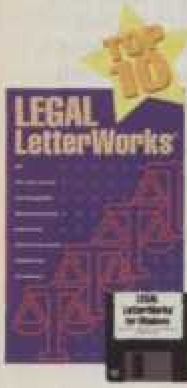

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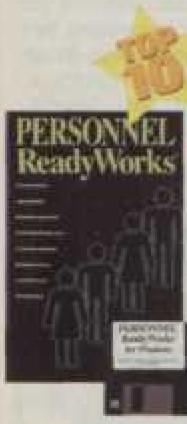

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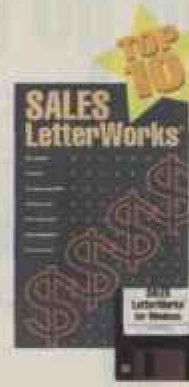

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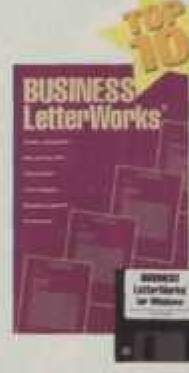

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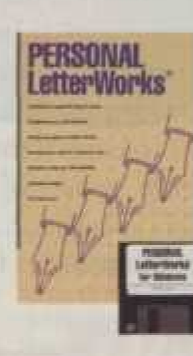

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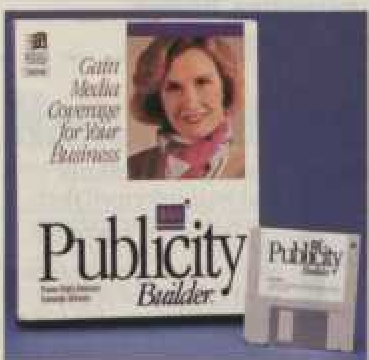

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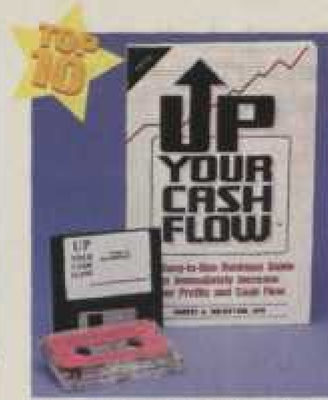

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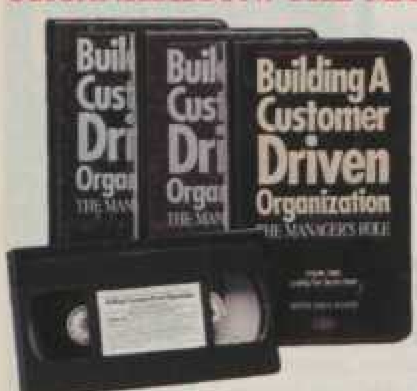

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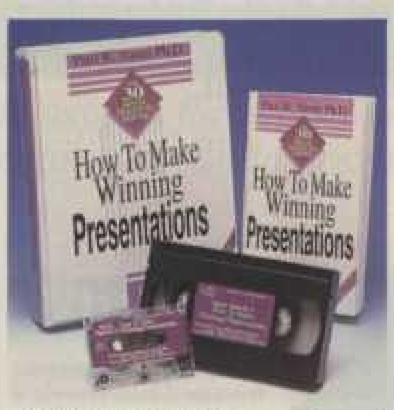

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	Finance For Nonfinancial Professionals	$249.95	$6.00	
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	Employee Manual *Maker* DOS ☐ 5-1/4 ☐ 3-1/2 ☐ Windows 3-1/2 ☐ MAC	$99.00	$6.00	
	Employee Appraiser (Windows 3-1/2 ONLY)	$99.95	$6.00	
	How To Supervise People	$99.95	$6.00	
	MARKETING KNOW-HOW			
	Publicity *Builder* DOS ☐ 5-1/4 ☐ 3-1/2 ☐ Windows 3-1/2 ☐ MAC	$99.00	$6.00	
	Power Marketing Through Direct Mail	$69.95	$6.00	
	Plan Write For Marketing (Windows 3-1/2 ONLY)	$99.00	$6.00	
	BUSINESS RESOURCES			
	How to Make Winning Presentations	$99.95	$6.00	
	Relocatable Business	$120.00	$6.00	
			SUBTOTAL	
			CA & DC SALES TAX	
			TOTAL	

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Your Order is 100% Satisfaction Guaranteed or Your Money Back Within 30 Days

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TRAVEL

Check In, Then Log In

Many hotel chains are offering business travelers rooms with office services and equipment.

By Hal Morris

When marketing and communications consultant James H. Harris is on the road, he puts finishing touches on presentations—often to major corporations—soon after he sets up a "base camp" in his hotel room.

"I get right into office work," he says, putting his laptop computer on the desk of the room's workstation, which has a computer hookup, a fax machine, a telephone with voice mail, and enhanced lighting.

In the competition for business travelers, hotel and motel companies increasingly are offering rooms equipped with office amenities, generally at a $12 to $35 premium over regular daily room rates.

Like many business people, Harris, a partner in Thomas L. Harris & Co., of Highland Park, Ill., finds that such business-oriented accommodations improve productivity, confidentiality, and convenience. Besides his laptop, the only other high-tech equipment he carries on a trip is a cellular telephone.

Harris says that when staying in Hyatt hotels he opts for the Business Plan, which includes office-style conveniences in the room; complimentary local, toll-free, and credit-card telephone access; and 24-hour access to in-house printers and copiers.

The Business Plan was rolled out in early 1995 after a Hyatt survey found that 58 percent of business travelers were spending more time working in hotel rooms than they did five years earlier, and that 72 percent said they felt more pressure to produce on business trips.

"It's a great program for someone like myself," says Harris, who has logged about 50,000 air miles in the past year. "It's just like being in an office." He pays an extra $15 a day for the business-related services. Business Plan rooms are available at 83 of the 103 Hyatt hotels in the United States and Canada.

Catering To Frequent Travelers

Some major hotel chains are going to great lengths to accommodate time-pressured business travelers—often their prime customers—who need work-related resources, says Carl Braunlich, an assistant professor of human resources in Purdue University's department of restaurant, hotel, institutional, and tourism management. "In gaining a competitive edge, it's a way to make frequent travelers choose a certain hotel."

Not all in-room business enhancements carry a surcharge. Marriott Hotels' Room That Works comes at no additional cost. Developed jointly with AT&T Corp. and office furniture and equipment maker Steelcase Inc., the rooms include a large console table with a computer, a modem jack, a mobile writing desk, an adjustable chair with lumbar support, and a movable task light.

These features now appear in more than 9,000 Marriott rooms in 78 U.S. properties, and the chain's goal is to be able to offer them in at least 20 percent of its 281 full-service hotels worldwide by year's end.

Hilton Hotels Corp.'s SmartDesk setup, being tested in four hotels, has a full-size desk; a computer with printer, color monitor, and fax/data modem; and dual-line telephones. Feedback from customers will help the chain "determine if we put SmartDesk into other business hotels, mainly in downtown areas," says Hilton spokeswoman Kendra Walker.

All ITT Sheraton properties offer some rooms with modem hookups and in-wall jacks for computers. Some hotels have in-room fax machines.

The office amenities *in a Hyatt hotel room in Deerfield, Ill., are convenient for business traveler James Harris, a marketing and communications consultant.*

Radisson Hotels' Business Class rooms in 200 hotels provide computer hookups, free local phone service, and fax delivery.

Holiday Inn Select, aimed at business guests at 50 properties, includes voice mail, a modem hookup, and improved work-area lighting.

Nearly three dozen Westin hotels offer Guest Office rooms. Each includes a combination printer-fax-copier, dual speakerphones, a modem hookup, and an adjustable chair with lumbar support. Local calls and long-distance access are free.

Best Western offers limited items—such as in-room modem outlets and business centers converted from shops—at 11 properties, mainly in business-meeting markets.

The Future For Business Centers

What's all this doing to independently operated, in-hotel business centers that provide secretarial services, copying, shipping, and business-equipment rentals?

Business centers and in-room equipment "seem not to cannibalize each other because they appeal to different types of travelers," says K.C. Kavanaugh, a Hyatt spokeswoman, noting that travelers preferring business-ready rooms typically carry their own computers.

Eventually, though, business centers could become obsolete, says Purdue's Braunlich. "The footprint of equipment in home-office technology is getting smaller and smaller, and one piece in a hotel room could be fax, printer, and scanner." In fact, he says, some hotel rooms are now so well-equipped that they themselves "could be business centers." NB

Hal Morris is a free-lance writer in Las Vegas.

Small Business Financial Adviser

Prospects for investors in the second half of 1996; insurance against credit losses; payroll without paychecks.

Stock Market Shows Little Inclination To Pause

By Randy Myers

Like Cal Ripken Jr., the Baltimore Orioles' tireless shortstop, the stock market shows little sign of wanting to rest.

Although many stock indices dipped in June, the market is now in its record sixth year without a correction of at least 10 percent from its recent peak, prompting concern in some quarters that a reversal is overdue.

Nonetheless, investors poured more money into stock funds in the first half of 1996 than they did in all of 1995, when they invested a record $128 billion.

Helped by this continued demand for shares, the average domestic stock fund tracked by Lipper Analytical Services, in Summit, N.J., posted a total return of 4.78 percent for the second quarter of the year (see chart) and 10.84 percent for the first half. Many analysts see room for further gains, especially if investors continue to sock their retirement funds into stocks.

A Bumpy Ride For Technology

To be sure, the ride may not always be smooth. It certainly wasn't in the second quarter, when many small technology stocks took huge falls despite a big appetite for small-company issues in general.

Small-company growth funds tracked by Lipper posted a total return of 7.93 percent for the quarter compared with just 4.36 percent for funds that mimic the big-company Standard & Poor's 500 Stock Index. Gold funds fell 6.52 percent on average,

Performance Of Mutual Funds, By Category

With Dividends Reinvested Through June 30

Type Of Fund	2nd Quarter	One Year	Five Years
	(Figures Are Percentages)		
Capital-appreciation funds	4.97	23.97	112.76
Growth funds	4.44	22.20	99.86
Midsize-company funds	4.78	25.33	122.26
Small-company growth funds	7.93	29.71	141.20
Growth and income funds	3.37	22.13	95.61
S&P 500 Index objective funds	4.36	25.42	102.85
Equity income funds	2.83	22.09	93.84
General Stock Funds Average	4.78	23.94	105.82
Health/biotechnology funds	-0.57	38.98	109.45
Natural-resources funds	4.74	25.26	70.43
Environmental funds	8.43	23.00	31.93
Science and technology funds	7.11	15.56	205.23
Specialty/miscellaneous funds	3.30	20.68	122.13
Utility funds	3.72	18.39	76.81
Financial-services funds	1.59	26.11	191.57
Real-estate funds	4.11	17.35	70.03
Gold-oriented funds	-6.52	16.60	53.01
Global funds	4.61	18.73	82.02
Global small-company funds	6.99	24.55	89.41
International funds	3.49	15.48	69.77
International small-company funds	7.07	19.95	39.90
European-region funds	5.14	16.75	85.07
Pacific funds, excluding Japan	0.47	6.81	81.45
Pacific-region funds	1.90	11.93	60.93
Emerging-markets funds	6.23	11.94	75.65
Japanese funds	3.83	18.38	7.14
Latin American funds	11.36	22.97	NA
Canadian funds	-1.20	11.52	31.24
World Stock Funds Average	3.67	15.74	69.62
All Stock Funds Average	4.42	21.57	100.55
Flexible portfolio funds	2.41	16.01	78.66
Global flexible portfolio funds	2.91	14.49	69.22
Balanced funds	2.39	15.52	74.06
Balanced-target maturity funds	1.03	6.61	64.96
Convertible-securities funds	2.19	15.82	90.32
Income funds	1.82	14.16	71.09
World income (bond) funds	2.73	9.81	40.79
Fixed income (bond) funds	0.64	5.19	48.64
Average Of Taxable Stock And Bond Funds	3.12	15.77	81.68

SOURCE: LIPPER ANALYTICAL SERVICES INC.

after racing ahead 22.76 percent in the first quarter.

While science and technology funds posted healthy overall gains (up 7.11 percent), many individual technology issues fell by 20 to 40 percent or more from their 12-month highs amid fears of slackening demand for personal computers and computer equipment. The final two weeks of June were especially difficult; before that time, science and technology funds had been up 11.07 percent for the quarter.

James Broadfoot, manager of Ivy Emerging Growth Fund, which invests primarily in small-company stocks, notes that sales of personal computers were disappointing in the fourth quarter of 1995, bloating inventories and driving down prices for semiconductors, particularly memory chips. All of that contributed to weakness in some technology stocks that carried over into 1996.

"These correction periods are uncomfortable for everybody, and I'm not sure we're done with this shakeout," says Lise Buyer, a technology analyst for T. Rowe Price Associates, a Baltimore-based mutual-fund company. "But overall, technology is a growing sector of the world's growing economies; the long-term macroeconomic trends are compelling," she says. "While this was and will continue to be a wildly volatile sector, we are investing in the promise of the future, [and] we're quite optimistic about the fall/winter 1996-97 time frame."

Investors who want exposure to technology stocks

despite the sector's recent turmoil could borrow a page from Broadfoot's playbook. In guiding his fund's Class A shares to a 19.56 percent total return for the first six months of 1996, he has been shunning stocks of personal-computer makers and commodity memory chips. He has focused instead on companies involved in wireless telecommunications, networking equipment, and client/server software, and—in health care—selected biotechnology, pharmaceutical, and medical-devices firms.

The Impact Of Interest Rates

Perhaps more impressive than the performance of any one sector so far this year is the fact that the market managed to climb at the same time interest rates were rising. After falling below 6 percent at the end of 1995, yields on 30-year Treasury bonds pushed above 7 percent during the first half of this year.

Since bond prices fall when interest rates rise, it's no surprise that bond funds lagged their stock-market counterparts in the first half of 1996. According to Lipper, the average domestic taxable bond fund posted a total return of 0.64 percent in the second quarter and -0.25 percent in the first half.

But bond funds may do better in the second half of this year, analysts say. Ronald Reuss, chief economist for Piper Capital Management, in Minneapolis, expects the economy to slow down. He estimates that it may grow at an annual rate of only about 2 percent during the second half compared with approximately 4 percent during the second quarter.

If that projection holds true, inflation should remain in check, precluding the need for the Federal Reserve Board to raise interest rates as a way to dampen inflationary pressures. Holding the line on interest rates would help bond prices.

Reuss' bullish outlook stems in part from his expectation that consumers, who have been boosting the economy, will slow their spending as 1996 winds to a close.

Economists and investment managers are divided on that point, but many agree that job growth could be the linchpin: If young companies continue to create jobs at a rapid pace, as they did during the first half of the year, consumer spending could remain strong. "We would have forecast about 750,000 new jobs during the first five months of 1996, and instead we had closer to 1.5 million," notes Reuss.

Stock Performance In The Second Quarter

Industry Group	Change In Value April 1 To June 30 (Figures Are Percentages)
Shoes, leather	23.1
Tobacco	16.4
Cosmetics—personal	16.3
Retail—apparel	14.8
Food—confections	13.9
Retail—food stores	12.1
Business equipment	11.9
Oil, natural-gas services	11.5
Retail—discount, drugs	11.1
Business services	10.1
Electrical equipment	9.9
Personal services	8.6
Recreation—luxury	8.3
Electronics	8.2
Hotels, motels, restaurants	7.7
Nasdaq Index	7.6
Business data processing	7.5
Textiles—apparel	7.1
Utilities—gas, other	6.9
Metals fabrication	6.3
Communications	5.8
Precision instruments	5.8
Oil, natural-gas production	5.7
Food—meats, dairy	5.5
Retail—miscellaneous	5.2
Distillers—brewers	5.1
Housewares, furnishings	4.9
Freight, shipping	4.8
Textile manufacturing	4.6
S&P Industrial Index	4.5
Drug manufacturers	4.2
Food—packaged goods	4.0
Aerospace	4.0
Media General Stock Index	3.9

Industry Group	Change In Value April 1 To June 30 (Figures Are Percentages)
S&P 500 Index	3.9
Real estate	3.6
NYSE Index	3.5
Machinery—light equipment	3.1
Food production	3.1
Insurance	3.0
Oil, refining, marketing	2.9
Real-estate investing	2.4
Building—heavy	2.3
Machinery—heavy	1.9
Railroads	1.7
Savings and loans	1.7
Utilities—electric	1.4
Credit	1.3
Retail—department stores	1.3
Dow Jones Industrial Average	1.2
Building	1.0
AMEX Index	0.9
Multi-industry	0.5
Recreation—movies, sports	0.4
Banking	0.0
Paper, packaging	-0.1
Recreation—broadcasting	-0.2
Publishing	-0.5
Investments	-0.5
Automotive	-1.3
Rubber, plastic	-2.3
Health	-3.0
Airlines	-3.5
Metals—nonferrous, coal	-4.5
Chemicals	-5.1
Metals—iron, steel	-7.1
Metals-rare	-11.5

SOURCE: MEDIA GENERAL FINANCIAL SERVICES

Believing In Slow Growth

Heading into the third quarter, at least, investors seemed to be buying into the slow-growth, low-inflation scenario, one that has been at the heart of the financial markets' gains over the past several years. Bond prices rallied sharply during the final two days of the second quarter, driving the yield on 30-year Treasuries down to 6.89 percent.

Peter Canelo, chief investment strategist for Dean Witter, a large New York brokerage house, says he thinks it is too soon for investors to become overly defensive in their stock-market selections. He cautions against buying only companies that can perform well when the economy is sluggish.

"I think it would be a mistake to change horses at this stage," Canelo said in early July. "The same horses that pushed this market up at the beginning of the year are the ones that are going to take it to 6,000 [as measured by the Dow Jones industrial average]: capital goods; cyclicals, including basic industries; technology; and retail."

The Dow finished the second quarter at 5,654.63 after hitting a closing peak of 5,778.00 in May. Although it temporarily broke above 5,800 that month, it never closed at that level. If investor confidence remains strong, particularly among the baby boomers who are funneling money into stock funds, it could pierce that level in the second half of this year. If their confidence flags, look for the correction that bears have been searching for—in vain—for six years. ■

Randy Myers is a financial writer in Dover, Pa.

ON-LINE COMMERCE

Opposition Grows To Excise, Sales Taxes

Last fall, the Florida Department of Revenue advised the state's Internet-access providers that they would be subject to telecommunications excise and sales taxes beginning July 1, 1996. Providers would have to pay a 2.5 percent tax on their gross receipts, and their business customers would have to pay a 6 percent tax on their purchases of on-line services.

Swift, forceful opposition from the on-line community, however, helped win a one-year delay in enforcement of the tax.

"We already pay taxes on our phones," says Suzi Pilat, vice president of Intelligence Network Online, an Internet-access provider in Clearwater, Fla. "Why should we charge another tax on a tax? That's how it's being viewed, as a double tax."

Florida is just one of several state or local governments seeking to join the list of jurisdictions that tax on-line commerce—estimated at $350 million in 1995 and expected to top $7 billion a year by the end of the decade, according to Forrester Research, an information-technology research firm in Cambridge, Mass. Such taxes, the states and localities contend, would help make up for revenue lost when products and services are purchased on-line rather than through channels where taxes customarily are levied.

According to a recent study by the Center for Community Economic Research, at the University of California at Berkeley, growth in on-line sales would result in a "devastating loss in local-government revenue."

The states and localities tax on-line providers rather than on-line sales of products and services because of their interpretation of a 1992 Supreme Court decision involving mail-order sales. In that case, the court barred states from levying sales taxes on out-of-state companies that have no facilities within the state's borders.

"Obviously, state laws weren't structured to deal with this issue," says G. Kent Johnson, a partner in the Seattle office of KPMG Peat Marwick, an accounting and management consulting firm. "Some states are trying to take their existing laws and fit them onto that application, but they don't fit very well."

Intelligence Network and other on-line providers, as well as business groups such as the Florida Chamber of Commerce, have strongly opposed on-line taxes and have mounted petition drives on the Internet to pass the word.

Now Florida Gov. Lawton Chiles has delayed enforcement of the taxes until July 1997 and has ordered the creation of the Florida Telecommunications Task Force to conduct further research on whether existing telecommunications taxes should be applied to on-line services. The task force is to report its findings by Feb. 1.

Nine states, including Connecticut, New York, Ohio, and Texas, already tax on-line services in one way or another.

ILLUSTRATIONS: GEORGIA LEIGH MCDONALD

Some tax the sales of on-line services; others tax the gross receipts of on-line services and Internet-access providers.

The main opponents of these taxes are industries with a stake in electronic commerce, including on-line services, computer companies, and banks. They have formed the Committee on State Taxation to oppose taxes on on-line services.

Taxes on Internet-access providers and Web sites may impede the growth of the on-line industry by increasing the cost of purchasing Internet services, according to providers such as Jack McCollum, managing partner of Econonet, an Internet-access provider in Houston. That may make it harder for small, start-up Internet providers to compete against low-cost offerings from companies such as AT&T and MCI.

"The bottom line will be if they drive out too many of the independents, the cost of the Internet service will go up," says McCollum. "The losers are going to be the consumers."

—*Tim McCollum*

TAXES

Whether To Deduct, Or Not To Deduct...

When the Internal Revenue Service audits a sole proprietor's books and says he or she owes additional taxes plus interest, that's bad enough for the business owner. When the agency won't permit that business owner to deduct the interest, it adds insult to injury. A recent court decision offers some hope to sole proprietors for interest deductibility, however.

The IRS regulations state that such interest paid by a sole proprietor is always nondeductible personal interest regardless of the source of the income generating the tax liability. But the applicable language in the Internal Revenue Code seems to say otherwise.

A recent U.S. Tax Court decision held that the language in the Internal Revenue Code did not support the regulation's conclusion that interest paid on individual tax deficiencies is always nondeductible. The court ruled the regulation to be invalid.

The Tax Court's decision is somewhat limited. It applies only to deficiencies arising from errors in the normal course of business, such as in inventory valuation or other items of accounting. Interest on a deficiency resulting from overly aggressive claims on a tax return, for example, probably would not be deductible under this decision.

Keep in mind that this decision is not the final word. It probably will be appealed, particularly in view of a contrary decision in a federal appeals court. As a result, it appears unlikely that sole proprietors could obtain refunds any time soon.

As a practical matter, the statute of limitations may run out before the courts reach a final decision.

Accordingly, sole proprietors who have been audited by the IRS in recent years and who have paid additional taxes and interest as a result of errors in the ordinary course of business should discuss with their tax advisers the possibility of filing "protective claims." This, in effect, is a request for a refund—even though the IRS will not grant it—to keep the statute of limitations open until this issue is decided once and for all in court.

—*Albert B. Ellentuck*

The author is counsel to the Washington, D.C., law firm of King & Nordlinger.

PAYROLL

Two New Ways To Pay Workers

For the estimated 20 percent of American workers who don't have a bank account, payday can be a real hassle. These workers typically are young, and many are part-time; some are transients. They often have difficulty finding a place that will cash their paychecks without charging a hefty fee.

To solve this problem, two new payroll systems—one using money-order machines and the other using "plastic paychecks" (similar to cards used at automated-teller machines)—have been introduced in Chicago, Phoenix, and parts of Florida. These services are expected to be available in other sections of the country before the end of the year.

The "plastic" system is from Paychex, a payroll-service company based in Rochester, N.Y. The company is offering its customers' employees a choice: They can have their pay electronically deposited into their own bank accounts, or they can use a Paychex Access Card to withdraw cash from any ATM machine that's part of the Cirrus, Cash Station, or Honor systems. The employee's card allows access to a special account set up for the employer.

"It's similar to our direct-deposit service," says Gene Polisseni, vice president for marketing at Paychex, "but the money goes into [an employer's] account that's accessed through the ATMs."

"It's just the right solution for us because now our young employees won't need a bank account to deposit paychecks," says Daina Jaras, co-owner of 2nd Hand Tunes, a Chicago chain of eight stores that sell compact discs, cassettes, and classic movies on video. The chain has 20 employees. "The new system doesn't cost any more than our old payroll service," says Jaras, "and it saves time and eliminates employee paycheck-cashing hassles."

Minneapolis-based Travelers Express, the nation's largest money-order company, is taking a different approach. After a test run in Phoenix, the company plans to offer retail stores using its Delta money-order machines—there are more than 44,000 around the country—the opportunity to pay employees with money orders processed by the in-store machines.

"The store's computer is directly connected to the Delta money-order dispenser and to the [firm's] payroll-service company by modem," says Jeff Wilcox, Travelers Express' vice president for business development.

Computerized records of employees' pay are sent via modem to the store's payroll-service company for calculation of tax withholding. Then, on payday, paychecks in the form of money orders are printed out through the money-order dispenser. Travelers Express and the participating stores' payroll-service companies provide the software for nominal fees.

"Employees like it because their pay is never late and money orders are easier to cash than regular paychecks," says Michael Larkin, manager of a Circle K convenience store in Phoenix.

—Peter Weaver

The author is a personal-finance writer in Bethesda, Md.

INSURANCE

Covering Losses From Nonpayment

You've been trying to sell that key prospect for a long time. But when you finally close the deal, instead of jumping for joy you are beset by nagging doubts. You wonder whether you are going to get paid. You think you can trust your new client, but you're not sure.

Nonetheless, you would have peace of mind if you had bought credit insurance, a little-known type of coverage that protects receivables against nonpayment for financial and other reasons.

"The biggest cause of business failures is inability to collect on receivables," says Peter Rukavina, executive vice president of Credit Insurance Associates, an insurance broker in Chicago.

For small or medium-sized companies, the U.S. market in credit insurance is dominated by two Baltimore-based insurers. One is American Credit Insurance, which says it typically doesn't do business with companies that have less than $15 million in sales. The other firm, Maryland-Netherland Credit Insurance, says it will look at any size of business.

A critical factor in determining the level of premiums is the composition of a company's receivables. If your clients are in an industry with high rates of bankruptcy, you can expect to pay higher premiums.

"We have data on bankruptcies in every industry going back over 100 years," says Glen Heckathorn, president of Maryland-Netherland, a credit-insurance joint venture backed by Fidelity & Deposit Insurance and NCM Netherland.

Heckathorn says that premiums usually do not amount to more than 1 percent of sales. "Why would [any company] assume such a large risk as nonpayment on receivables when the cost of insuring against it is so small?" says Heckathorn.

The market in credit insurance is much more active in Europe, where 25 percent of businesses take out coverage, compared with less than 1 percent in the U.S.

Another reason to buy credit insurance is that it could help you get bigger lines of credit from your bank. "If you have accounts that are very concentrated in one industry, it can be very hard for you to get much lending on your receivables from your bank," says John Trocher, vice president of marketing at American Credit Insurance. "But even if you have a fairly diversified, let's say $5 million receivables portfolio, your bank won't lend you much more than $3 million on that collateral. We can get you another $1 million with credit insurance."

—Ted Jackson

The author is a free-lance business writer in St. Louis.

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Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Laura M. Litvan

GOVERNMENT CONTRACTS

Getting The Word

How do I obtain *Commerce Business Daily,* where the government officially solicits bids for new federal contracts?
S.B., Claremont, Calif.

To subscribe to *Commerce Business Daily,* call the U.S. Government Printing Office at (202) 512-1800. A six-month subscription costs $162 if mailed first-class or $137.50 if sent through periodicals mail. (The lower price comes with slower delivery.)

But a lot of opportunities slip through the cracks if you stop there. It's important to understand that *CBD* isn't an all-inclusive list of contracts available; it lists only contracts valued at $25,000 or more, thus omitting the smaller contracts that many entrepreneurial firms see as their lifeblood.

What's more, within a few years even more contract opportunities will be left out of *CBD.* The Federal Acquisition Streamlining Act of 1994 requires, among other things, that agencies fashion a large-scale computer system called FACNET, on which all bids must be posted starting in 2000.

Once individual contracting offices can show they can conduct their business electronically—which could occur in the next year or two—they won't have to post contracts valued under $100,000 in *CBD.*

Another provision of this law sets aside all contracts valued at $2,500 to $100,000 for bidding only by companies with 500 or fewer workers. (To learn more about that law, see "Selling To Uncle Sam: New, Easier Rules," in the March 1995 *Nation's Business.*) Therefore, your small company has some extra incentive to keep tabs on the contracts that don't get any ink in *CBD.*

To track contract announcements that aren't published in *CBD,* you will need a computer, a modem, and the help of a services provider. You pay the provider a fee for access to a particular database of information, which you can then receive via computer modem.

ILLUSTRATIONS: MARTHA VAUGHAN

Call *Commerce Business Daily* at (202) 482-0632 to have a list of such providers faxed or mailed to you.

Norman Meltzer, manager of *CBD,* advises that it will probably cost you $200 or so per year for a contract with a services provider.

A note of caution: Ask a lot of questions before selecting a provider of on-line services. A few offer only what is already in *CBD,* and some offer only the small contracts not published there.

One that has both types of information as well as an extensive listing of state- and local-government contracting opportunities is Softshare Information Services, in Santa Barbara, Calif.; 1-800-346-6703. ■

GETTING STARTED

In It For The Dough

I am interested in starting a bakery. I would appreciate help in locating information about the industry.
J.E., Apple Creek, Ohio

The Retailer's Bakery Association offers a start-up kit that includes industry statistics, a glossary of commonly used baker's terms, and leads on a variety of associations around the country that offer services to bakeries. The kit itself is free, but there is a $2.50 charge for shipping and handling. Call the group in Laurel, Md., at (301) 725-2149.

Health Fare

Are there associations or groups that could give me information on starting a health-conscious cafe serving soups, salads, and sandwiches?
M.W., Stockbridge, Ga.

The National Restaurant Association sells a start-up kit that includes a fact book on the food-service industry, a calendar of industry trade shows, and articles on matters such as developing a menu and finding financing. To order the $10 kit, call (202) 331-5900.

Taking Off

I would like to open a travel agency. Could you tell me where to find information on starting such a business?

Also, is there any information you can provide on trade journals or any other publications that would help me in my venture?
D.J.B., Rome, N.Y.

Two books from Forsyth Travel Library, a publications distributor, offer detailed advice on establishing your own travel business.

One is *How to Buy and Sell A Travel Agency,* which costs $29.95 plus $3.50 for shipping and handling.

The other is *How to Open Your Own Travel Agency,* which costs $39.95 plus $4 for shipping and handling.

For a free catalog that lists these and other publications from Forsyth that are related to the travel industry, call 1-800-367-7984.

In addition, a list of trade magazines can be obtained free from the American Society of Travel Agents, in Alexandria, Va., by calling (703) 739-2782. ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business,* 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number. Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.

Taking Your Best Shots

My new software-development firm has completed work on six products for business travelers. Among other things, our software will help travelers maximize their frequent-flier miles or identify the best hotels and restaurants in the cities they will visit. Our problem is that our advertising budget is only $20,000 for the first year. What can we accomplish with such a small sum?
M.L., Raleigh, N.C.

You could get a lot of mileage out of your small budget with a carefully honed strategy, says Bob Bly, a consultant in Dumont, N.J., who specializes in marketing software goods.

He says you probably have discovered that a $20,000 budget would doubtless rule out placing ads in major airlines' in-flight magazines; they charge $10,000 to $40,000 for a one-page ad.

Bly suggests that you designate one of your six software products as your "flagship" product—the item most likely to capture an initial sale with customers—and focus your promotion efforts on that product.

When a frequent traveler orders that flagship product, called selling on the "front end," you could insert promotional materials about the other five products into the shipment to the customer, with the hope of attracting future sales from existing customers on the "back end."

To trumpet that flagship product, write a press release about the software package and send it to editors at publications for business travelers. If the editors feel there is something distinctive or particularly useful about your software, you might get some free publicity through a software review.

Another promotional outlet is direct mail. Contact a mailing-list broker to determine if there are lists that could help you send business travelers a brochure about your flagship product. The ideal list, Bly suggests, would include members of airlines' frequent-flier clubs who have also made mail-order purchases in the past. "You really want people who have bought through the mail for other travel-related items," he says.

Once you factor in all of the expenses associated with a direct mailing—the costs of paper, envelopes, postage, and "renting" a mailing list, to name a few—you probably will spend about $600 per 1,000 pieces of mail, he says.

As you examine your options, don't let anyone convince you that a $20,000-a-year advertising budget means you have to think small, Bly says. "People manage to successfully market their products on that kind of budget every day." NB

Laura M. Litvan is a financial writer in Washington, D.C.

Free-Spirited Enterprise

By Michael Barrier

It's All In The Name

We've been intrigued by a couple of small companies we ran across recently—companies whose real products are, when you think about it, names.

Names can be worth a lot, of course; the value of a name like "Walt Disney" or "Pepsi-Cola" is beyond calculation. And everyone knows that some consumers like to flaunt the names of the companies whose products they buy.

It's actually a little odd that no one flinches at wearing athletic shoes, jackets, or shirts with the manufacturer's name prominently displayed. Wearing such clothing turns you into a sort of walking billboard; logically, the manufacturer should pay you for providing advertising space.

Instead, you're more likely to pay a premium for that name—and you do so willingly because you think that the clothes involved are of a higher quality, or maybe because you think that wearing a certain brand tells the world that you boogie with the best. Whatever.

In most such cases, you're still buying a product, and the name is incidental to it; but it's just a short hop from there to buying a product because the product is the way to get the name. If you buy a T-shirt with "Planet Hollywood" on it, it probably won't be because you need a T-shirt. It'll be because you want to be associated with Arnold, Sly, Demi, and Bruce, and buying the T-shirt is as close as you can get to that without being arrested for stalking.

But what if Planet Hollywood didn't exist as a restaurant chain, but only as a classy logo?

That thought came to mind when we got a little catalog

from a company called Electoral College Sportswear & Accessories, in Glenburn, Maine. There is a real Electoral College, to be sure—the one that elects the president. But it's not the kind of college that is covered in ivy—which is what the catalog evokes, tongue in cheek, as it announces that "America's original party school now has its own collegiate sportswear!"

Inside, the catalog offers T-shirts, sweat shirts, and caps that permit you to declare your allegiance to good old EC—a college that is, as the company's letterhead proclaims, "America's Most Selective Four-Year Institution."

Marcia Diamond, a former seventh-grade teacher who worked for four years in the '80s as press secretary to former Senate Majority Leader George Mitchell of Maine, started the company last year. Electoral College merchandise is being sold in four retail stores now, she says, as well as through the mail, and she hopes for more outlets.

She wants to expand the line, too, to embrace all the kinds of things that might be sold in a college bookstore—"everything from bumper stickers and window decals to college chairs, which we've already had requests for." And there's always the possibility that some members of the *real* Electoral College might want to wear an EC sweat shirt when they gather next December to cast their votes.

Smoke And Memories

Another company in the same vein is the Five Cent Cigar Co., of Somersworth, N.H. It doesn't sell 5-cent cigars, or cigars of any kind. Instead, it sells T-shirts that bear the names of defunct cigar brands from early in the century; accompanying those logos is the artwork that adorned the boxes that held such cigars.

The T-shirt with the logo of the long-vanished Bully brand, for instance, depicts a large, tuxedo-clad bullfrog with a cigar clamped in its ample mouth.

(The T-shirts cost considerably more than 5 cents—$19, to be exact. Electoral College T-shirts cost about the same. Five Cent Cigar makes all its shirts extra-large, in the hope that kids won't be walking around touting the virtues of cigars.)

Jake Rosenfield, who started the company last year, says he's making clothing to accompany "the cigar renaissance." Some tobacco shops sell the shirts, Bloomingdale's carried them last Christmas, and, he says, "we're in a number of mail-order catalogs. We're trying to get them where people buy gifts for men who may smoke cigars."

Most of the men we've known who smoke cigars would pass up the T-shirts, though, in favor of a golf shirt or maybe a sweater with little holes burned in it.

Rosenfield acknowledges that to some extent cigars are, indeed, beside the point. "The images are so attractive," he says, "that they transcend the idea" that their purpose was just to sell cigars.

The possibilities here are intriguing for businesses of all kinds. In our own case, when putting out a monthly magazine got too wearing, we could always send you a T-shirt labeled "*Nation's Business*" instead; the April issue in daffodil yellow, perhaps, and the October issue in an autumnal gold.

But wait a minute—before we could do that, we'd have to ask you to specify S, M, L, or XL on your subscription coupon. So, for the time being at least, we'll have to keep sending you one-size-fits-all magazines ... unless maybe you'd like an adjustable baseball cap? NB

To learn more about Electoral College merchandise, call 1-800-ELECTOR (1-800-353-2867). The Five Cent Cigar folks can be found puffing away at 1-800-81-5CENT (1-800-815-2368).

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Outlet centers are no longer exclusively for big manufacturers; small firms, too, can get on the inside track for space. (Page 45)

***Young Entrepreneurs Make Their Mark** #9130

With enthusiasm and little trepidation, people aged 25 to 35 are starting companies—sometimes with great success. (Page 49)

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Where I Stand

On Hiring

These questions seek your views on the employment situation in your area and how it is affecting your business.

Results of this poll will appear in the October issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1 Do you generally have enough job applicants?

1. Yes
2. No

2 How long does a job in your firm usually remain vacant?

1. Less than a month
2. One to three months
3. Three to six months
4. More than six months

3 From where do most of your employees come?

1. Other jobs in business or government
2. Right out of high school or college
3. The unemployment rolls

4 Are you satisfied with the quality of job applicants?

1. Yes
2. No

5 Have prospective employees gotten better or worse in the past three years?

1. Better
2. Worse
3. No change

6 In what areas are job applicants weak? (Check all that apply.)

1. Specific technical skills
2. Basic reading and math skills
3. Basic communication skills
4. Attitude and work habits

7 What job aspect seems to concern applicants most?

1. Salary level
2. Duties
3. Promotion opportunities
4. Workplace location

8 How would a higher federal minimum wage affect your firm? (Check all that apply.)

1. Company would hire fewer workers
2. Pay rates for jobs above the minimum wage would rise
3. Job openings would attract better applicants
4. No impact

Send Your Response Today!

POLL RESULTS

Readers' Views On Congress

The Republican-controlled Congress has been heading in the right direction in its efforts to cut federal spending and reduce the budget deficit, according to most respondents to the Where I Stand poll in the June *Nation's Business*.

Respondents also overwhelmingly blamed President Clinton for the delays last winter and spring when he and Congress tried to reach agreement on spending plans for the current fiscal year. Those delays resulted in partial federal government shutdowns.

But while almost four out of five respondents approved of Congress' efforts to cut spending and eliminate the deficit and three-fourths said Congress has been fair in its policies, nearly two-thirds said that lawmakers haven't worked hard enough on issues important to small business.

Moreover, one-third of the respondents said that their U.S. representatives should not be re-elected this fall, though nine of every 10 want the Republicans to continue to control Congress.

All 435 House seats and 34 of the 100 Senate seats are to be decided Nov. 5. Forty-nine seats in the House and 13 in the Senate will be open seats, meaning the incumbents are not running for re-election. Republicans now control the House 235 to 198, with one independent and one vacancy. The GOP controls the Senate 53 to 47.

Below are the complete poll results:

CONGRESS

Do you think this Congress has worked hard enough on issues important to you and your company?

1. Yes 35%
2. No 65

Has this Congress been heading in the right direction in pushing to reduce federal spending and eliminate the deficit?

1. Yes 79%
2. No 21

Who was more to blame for the delays in agreeing to the 1996 budget and spending plans?

1. President Clinton 84%
2. Congress 16

Do you feel this Congress has been extreme in its policies, or has it addressed issues in a fair manner?

1. Extreme 23%
2. Fair 77

Does your representative deserve to be re-elected to the House?

1. Yes 59%
2. No 34
3. Not running 7

Which party would you like to see control the next Congress?

1. Democrats 10%
2. Republicans 90

Commentary

The Powell Memorandum, an important document in the history of business, is as relevant today as it was 25 years ago.

By Robert T. Gray

A Challenge That Lives On

As the 1960s turned into the 1970s, two longtime friends and neighbors in Richmond, Va., spent many hours discussing a subject of mutual concern—the increasingly precarious state of the American enterprise system.

Individual businesses, business generally, and even the concept of a market economy, they recognized, were under intense attack by legislatures, courts, militant special-interest groups, and academia, usually with the strong support of the mass media.

The challenge, as the two neighbors saw it, was to restore balance to the national dialogue by showing that the market system was the source—not the enemy—of the nation's well-being. One participant in those discussions articulated his idea of a business response so well that his friend invited him to put those views into a formal statement.

The result was The Powell Memorandum, which was issued 25 years ago this month and remains one of the most significant and relevant documents in the history of American business.

It was written by Lewis F. Powell Jr., then a prominent attorney, who later served with great distinction on the U.S. Supreme Court. His friend, Eugene B. Syndor Jr., submitted the document to the board of directors of the U.S. Chamber of Commerce, on which he served at the time.

In his statement, Powell noted that business was under a "massive assault upon its fundamental economics, upon its philosophy, upon its right to continue to manage its own affairs, and indeed upon its integrity." But, he added, "the painfully sad truth is that business . . . often has responded—if at all—by appeasement, ineptitude, and ignoring the problem.

"The time has come—indeed it is long overdue—for the wisdom, ingenuity, and resources of American business to be marshaled against those who would destroy it."

Powell called for intensified political action, a competitive response to the success that business's enemies were having in the courts, and an aggressive communications program on behalf of private enterprise. The countermeasures on the legal front were needed, Powell said, because "the judiciary may be the most important instrument for social, economic, and political change."

PHOTO: AKEN HEINEN

Lewis F. Powell Jr. *urged business to marshal its "wisdom, ingenuity, and resources" to counter its foes.*

As the nation's largest broad-based business organization, the U.S. Chamber set the pace on his recommendations. The federation's endorsements of candidates supportive of business positions were important in the election of the current Congress with its pro-enterprise perspective. The Chamber's endorsement carries twice the impact with voters as approval by the AFL-CIO, according to a survey by the Luntz Research Companies of Arlington, Va.

The National Chamber Litigation Center was established as a public-policy law firm to represent business in the courts, and it has done so with great effectiveness. Recent victories include the first-ever ruling by the U.S. Supreme Court that a punitive-damages award was excessive. Another winning effort was the center's successful challenge in the U.S. Circuit Court of Appeals for the District of Columbia to President Clinton's attempt to bypass Congress on rules governing the hiring of replacements for striking workers.

On the communications front, the Chamber's extensive broadcast and print operations carry the business message to vast audiences.

But those achievements do not mean a final and conclusive business victory. The challenge continues. Its current manifestation is the AFL-CIO's $35 million campaign to restore control of the House of Representatives to the big-government, anti-business forces that ran it for most of the past 64 years.

In a massive demonstration showing that business has come a long way from the days of "appeasement and ineptitude" so lamented by Powell, more than 20 business organizations have formed a coalition with the mission of fighting "the AFL-CIO's attempt to reverse congressional efforts to keep America's businesses growing."

The Coalition—its official name—is seeking funds for a high-powered campaign to "correct the distorted messages being spread by union leaders and their allies." (Additional information on this critical venture is available from The Coalition by calling the U.S. Chamber at 202-463-5600.)

The passage of 25 years has seen many changes in the conditions that led to The Powell Memorandum. But, as yet another battle is joined over fundamentally opposing views, the memorandum's key point remains as relevant to today's political scene as it was to that of 1971: "Freedom as a concept is indivisible. . . . The contraction and denial of economic freedom is followed inevitably by governmental restrictions on other cherished rights." NB

Robert T. Gray retired in 1995 after 26 years with Nation's Business, *13 as editor.*

Editorial

The Real World Of U.S. Trade

Bashing U.S. trade policy has become a popular activity in some political quarters. Office seekers trying to exploit workers' concerns about employment security contend that trade agreements are nothing more than vehicles for "exporting jobs."

Special targets of such attacks are the most recent of the major pacts—the North American Free Trade Agreement (NAFTA) and the Uruguay Round agreement revising the long-standing General Agreement on Tariffs and Trade (GATT).

Those arrangements, critics argue, have boosted economic activity in other countries at the expense of American jobs. They contend that too many products once made by U.S. workers for domestic markets are now produced in other countries with far lower wage scales.

While such assertions may have a superficial political appeal to some voters, they do not reflect how this country is faring in global trade.

A nonpolitical perspective is offered by Willard A. Workman, vice president/international of the U.S. Chamber of Commerce: "The good news is that free trade is alive and well and working to the advantage of American business and American workers."

He notes that the impact of the Uruguay Round agreement (named for the site of the initial discussions on revising GATT) provided for "the largest multilateral tariff reduction in history," and that the U.S. is realizing its expected benefits.

U.S. sales to Japan and Western Europe were up in January and February of this year compared with the same months of 1995, as were sales to our NAFTA partners, Mexico and Canada. In addition, exports to countries not covered by major trade agreements—China and Eastern European nations including Poland and the former constituent states of the Soviet Union—were also up. (See the chart at left for details.)

Increases In U.S. Exports

Percentage of growth from January/February 1995 to January/February 1996

With Selected GATT Partners	
Japan	14.7
Western Europe	13.1
With NAFTA Partners	
Mexico	10.4
Canada	6.5
With Selected Other Trading Partners	
Poland	56.6
Russia	59.1
Newly Independent States*	93.6
China	10.0

*Countries other than Russia that made up the former Soviet Union

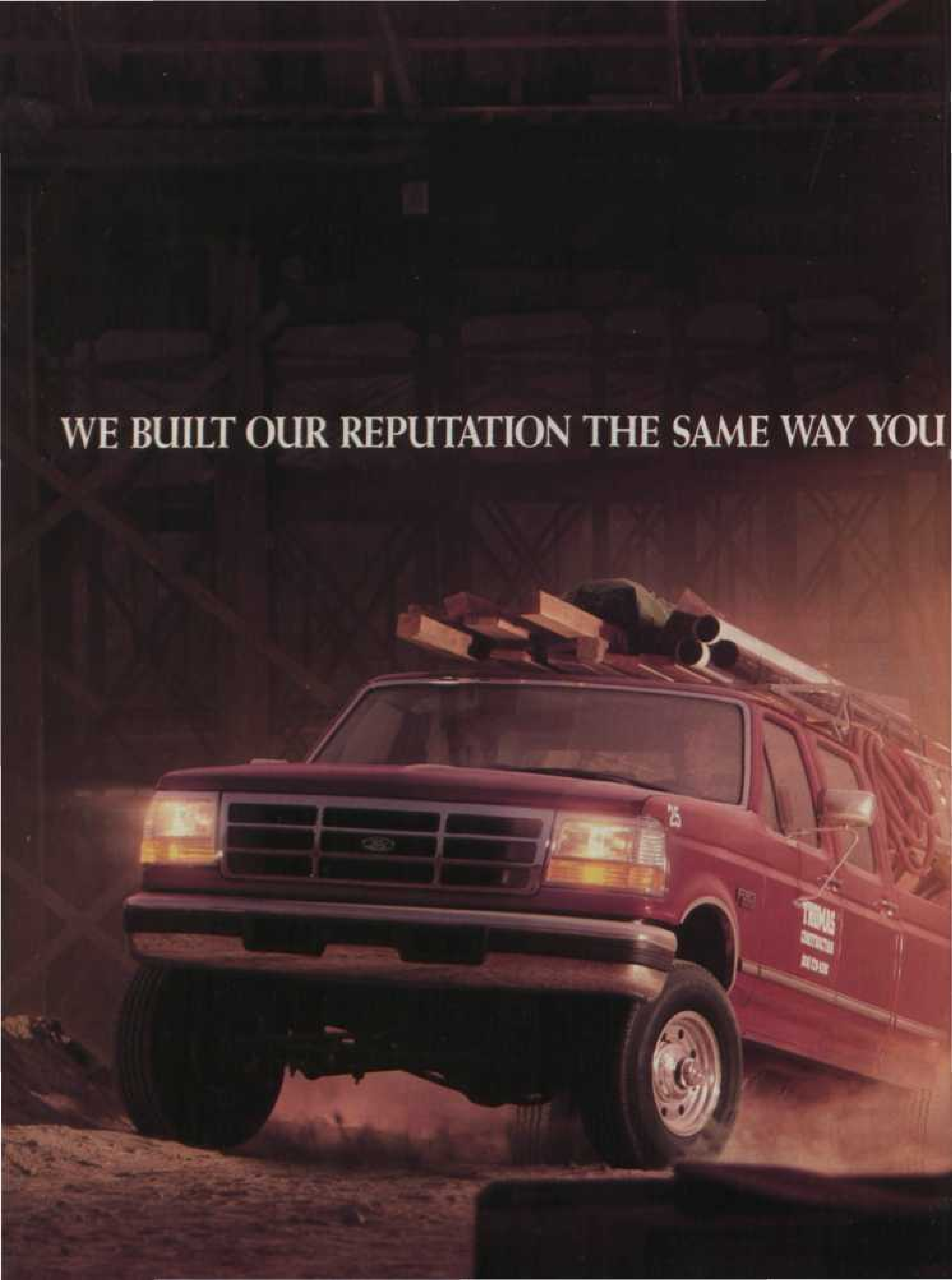
SOURCE: U.S. DEPARTMENT OF COMMERCE

The doomsayers ignore their own country's strengths in global markets. This nation remains a highly competitive participant because it offers top-quality products and services at reasonable prices. And these exports translate into jobs in domestic factories and service industries—jobs that would not exist in the protectionist world envisioned by the critics.

Moreover, the export growth now being experienced is only the beginning. The first tariff cuts under the Uruguay Round took effect Jan. 1, 1995, and more will be phased in—with resulting increases in U.S. sales overseas—in the remainder of the 10 years set for full implementation. The continuing implementation of NAFTA also will stimulate U.S. exports and job growth.

While the agreements make it easier for participating nations to send their products into this country, those imports help the U.S. economy as well as the economies of the exporting countries. Jobs are created in the U.S. as imports move directly through the distribution and sales chain.

The increasingly obvious benefits of lowering trade barriers throughout the world constitute an eloquent response to those who want to return to the dark ages of international commerce. NB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The Business Advocate
Supplement To *Nation's Business*

The Business Advocate

SUPPLEMENT TO Nation's Business AUGUST 1996

Published By
U.S. Chamber of Commerce

Clinton Given Failing Grade

Bruce Josten, right, U.S. Chamber senior vice president for membership policy, discusses a scorecard on the Clinton administration's handling of small-business issues. Other participants in the June 5 news conference included Senate Small Business Committee Chairman Christopher S. Bond, R-Mo., left, and Jack Farris, president of the National Federation of Independent Business.

The U.S. Chamber of Commerce and several other business groups recently gave the Clinton administration a failing grade on issues important to small business.

"The administration has consistently opposed legislation that would help small business," said Bruce Josten, the Chamber's senior vice president for membership policy, at an early June news conference on Capitol Hill.

He noted that President Clinton vetoed a bill to overhaul the product-liability system and a fiscal 1996 budget measure that would have balanced spending and revenues by 2002. The president has also threatened to veto comprehensive legislation to reform the regulatory process and other business-backed bills.

"What's more," Josten said, "the president's actions don't match his words." At the 1995 White House Conference on Small Business, Clinton administration representatives promised to act on a number of the 60 recommendations made by the 1,800 delegates. High on the delegates' list were regulatory reform, tax cuts, and overhaul of the product-liability system.

Separately, the president received a grade of D-minus from Sen. Christopher S. Bond, R-Mo., chairman of the Senate Small Business Committee. Bond and other Republican lawmakers on the committee presented a "report card" on Clinton's efforts on the small-business agenda at the June 5 news conference.

In contrast to Clinton, said Josten, the 104th Congress "has been more favorable to small business than any Congress in decades." He cited as examples lawmakers' efforts to balance the budget, cut taxes, and overhaul the regulatory process.

■ Business Agenda

Town Meeting Set For September

The U.S. Chamber of Commerce will hold a satellite town meeting Sept. 12 as part of its work toward setting the business agenda on federal legislation and regulation for 1997-1998.

The program, which will be broadcast by satellite to downlink sites nationwide from 1 to 3 p.m. Eastern time and which is free to Chamber members, will feature presentations on the outlook for federal legislation and regulation in 1997 and for the Nov. 5 elections.

Results of the recent National Business Agenda Survey of the Chamber's 220,000 members, which was distributed with the July *Business Advocate*, will also be reported. The survey results and information garnered from the town meeting will be used to help establish the 1997-1998 National Business Agenda.

For more information about the meeting and about downlink sites, or to learn how to be a downlink host, call the Office of Membership Grassroots Management at (202) 463-5604.

Board Action

Ex-Im Dam Move Denounced

The board of directors of the U.S. Chamber of Commerce condemned the May 30 decision by the Export-Import Bank to deny financing to U.S. companies bidding on construction of a huge dam project in China.

House Majority Leader Richard K. Armey, right, talks with Chamber Vice President Lonnie Taylor before addressing the business federation's board of directors.

The Chamber board called for the Ex-Im Bank, which provides low-cost loans for U.S. companies to export goods, to operate according to its charter, which identifies the bank as an "independent agency." In government parlance, that means it is not supposed to be subject to political pressure.

The board adopted its stand on the decision at its June 12 meeting.

The bank turned down $10 million in financing for U.S. firms seeking to work on China's Three Gorges dam project after pressure was exerted by the Clinton administration, environmental groups, and other noncommercial interests, which claimed the dam would be harmful to the environment.

The dam is being built at an estimated cost of $24 billion to control destructive flooding of the Yangtze River and to provide hydroelectric power.

Willard A. Workman, Chamber vice president/international, said following the board's action that "China fully intends to build the dam. The only question is whether, or to what degree, U.S. firms will be able to participate now that the Ex-Im Bank has denied funding."

In other action, the board called for a worldwide ban on bribery and corruption in international transactions. U.S. companies, which are subject by law to high ethical standards in trade under the Foreign Corrupt Practices Act, often find themselves competing for business with companies from other countries that allow unethical practices.

Haley Barbour

The board asked the Office of the U.S. Trade Representative and other U.S. agencies to press America's trading partners to adopt measures that subject their companies to the same high standards as U.S. companies. It called for international cooperation to combat corruption and bribery.

In other action, the board voted to accredit or reaccredit a number of local chambers of commerce. It also heard reports on developing issues from a number of U.S. Chamber policy committees.

Rep. Gary Condit

Outside speakers at the meeting were House Majority Leader Richard K. Armey, R-Texas; Rep. Gary Condit, D-Calif., who is among the leaders of a group of moderate-to-conservative House Democrats known as the "Blue Dogs"; and Republican National Committee Chairman Haley Barbour. Rep. Vic Fazio, D-Calif., the chairman of the House Democratic Caucus, was scheduled to speak but was called back to Capitol Hill for a vote before he could address the board.

Rededication

The Hall of Flags at the U.S. Chamber's Washington headquarters was rededicated as the International Hall of Flags in a June ceremony. U.S. Chamber President Richard L. Lesher, third from the left, honored four companies—American International Group, of New York; Hanson Industries, of Iselin, N.J.; Toyota Motor Sales USA, Inc., of Torrance, Calif.; and Xerox, of Stamford, Conn.—for their help in restoring the hall and for their leadership in the global economy. Accepting the honors were, right to left: Brad Welling, director of government affairs, American International Group; James Olson, group vice president, external affairs, Toyota Motor Sales USA, Inc.; and Michael MacDonald, vice president of marketing for Xerox. Others attending the event included Elaine Wilde and Michael Farren, both with Xerox.

The Avenue

U.S. Chamber President Richard L. Lesher, joined by Washington, D.C., business owners and federal and local officials, calls for the reopening of Pennsylvania Avenue in front of the White House. Businesses and commuters have suffered since the city's main east-west thoroughfare was closed a year ago because of White House security concerns.

Employment

Regulations Reduce Hiring, Survey Says

Federal regulations not only cost businesses time and money but also cause them to limit the sizes of their work forces, according to the results of a survey released recently by the U.S. Chamber of Commerce.

The burdens of employee-benefit and labor regulations have prompted one in six employers to lay off workers and nearly 40 percent of them to forgo adding jobs, the survey indicated. Moreover, 10 percent of employers said they had laid off employees and 30 percent said they had not hired workers because of environmental and natural-resources rules.

The survey was conducted via mail early this year by Voter/Consumer Research, of Bethesda, Md. It was commissioned by the Chamber's Regulatory Affairs Committee. The survey included 8,000 U.S. Chamber members selected at random from each state based on their having previously expressed an interest in regulatory matters. The results of the survey were released at a June 25 press conference at the Chamber.

"This survey was conducted to assess more precisely the burdens and compliance costs of federal regulations on business," said Scott L. Holman, chairman of the Chamber's regulatory affairs panel and a member of the organization's board of directors.

When asked how they cover the cost of complying with federal rules, respondents were allowed to give more than one answer. Eighty-three percent said they cut profits to absorb the costs of complying with employee-benefit and labor regulations, and 66 percent said they reduced profits to pay for environmental and natural-resources rules.

Fifty percent reported raising prices to cover the costs of employee-benefit and labor regulations, while 44 percent hiked prices to pay for environmental and natural-resources regulations.

The survey also found that nearly one-half of the respondents spend about 5 percent or more of their annual budgets complying with employee-benefit rules.

"This gives us ammunition to convince Congress and the public that we need to change the regulatory climate," said Rep. Joel Hefley, R-Colo., at the news conference on the results. Hefley, who serves on the House Small Business Committee, and Senate Small Business Committee Chairman Christopher S. Bond, R-Mo., were on hand to receive the results.

Among the survey's other findings:

- Businesses most often become aware of new federal regulations after the rules go into effect.
- Companies would be better off if rules were tailored to their specific industry rather than applied to all businesses.
- Nearly all the respondents—91 percent—said federal regulatory agencies should be required to use the best available science in developing rules on the environment, health, and safety.

Honors

You May Be A Contender

If your business has overcome a threat to its survival in recent years and become stronger as a result, you may be a candidate for 1997 honors in the Blue Chip Enterprise Initiative.

The Blue Chip program honors small companies nationwide that have faced such hurdles. It is sponsored by Massachusetts Mutual Life Insurance Co. (widely known as MassMutual—The Blue Chip Company), the U.S. Chamber of Commerce, and *Nation's Business*.

As many as 200 companies are selected annually as state or regional Blue Chip Enterprises. The four most exemplary are honored as national Blue Chip Enterprises.

To have your company considered for the 1997 honors, see the application included in an advertisement beginning on Page 39 in your August *Nation's Business*. To have a copy sent to you or for more information on the program, call 1-800-FOR-BCEI (1-800-367-2234).

Small Business

House Small Business Committee Chairwoman Jan Meyers, R-Kan., was honored recently for her efforts on behalf of small companies. Presenting the award was business owner Ronald R. Lyons, a member of the U.S. Chamber's board of directors and chairman of the organization's Small Business Council.

■ Legislation

Senate Urged To Pass Property-Rights Bill

The U.S. Chamber of Commerce is urging the Senate to approve a bill that would protect the rights of private-property owners.

The legislation, known as the Private Property Rights Act of 1995, would require the federal government to compensate landowners if the value of their property is reduced by 30 percent or more through the actions of federal agencies.

The bill would also require federal agencies to perform analyses on the potential impact of such "takings" of land by the federal government before regulations are proposed and actions initiated that would adversely affect private property.

In addition, S. 605 would establish special rules for resolving property-rights disputes that arise from federal enforcement of the Endangered Species Act and wetlands provisions of the Clean Water Act.

One such rule, for example, would allow landowners to seek compensation for property losses through a new administrative process rather than through the federal courts.

The new Senate majority leader, Trent Lott, R-Miss., has indicated that the legislation would be brought to the Senate floor for a vote before Congress adjourns for a monthlong recess beginning in early August.

A similar House bill, H.R. 9, was approved in March 1995. It would compensate property owners when their land lost 20 percent or more of its fair market value through enforcement of the Endangered Species Act or federal wetlands programs.

House Speaker Newt Gingrich, R-Ga., left, accepts the Spirit of Enterprise Award for his support of business from U.S. Chamber President Richard L. Lesher. Gingrich was at the Chamber in mid-June to address a group of property-rights supporters.

A compensation provision similar to the Senate provision is included in a House-passed proposal to reform the wetlands regulatory program. And pending House and Senate bills to reform the Endangered Species Act also include similar compensation provisions.

House Speaker Newt Gingrich, R-Ga., in a speech to an alliance of property-rights supporters attending a mid-June rally at the Chamber's headquarters in Washington, D.C., said he was hopeful that the Senate would act soon on its property-rights bill.

The Clinton administration strongly opposes the Senate and House property-rights measures, claiming that the legislation would cost the government tens of billions of dollars.

Proponents of the bills, citing Congressional Budget Office studies that show the costs at no more than $40 million—mostly for short-term administrative expenses—believe that the threat of compensation will force federal agencies to issue regulations that have only minimal impact on private property.

Call your senators immediately and urge them to support S. 605, the Private Property Rights Act of 1995. Lawmakers can be reached through the Capitol switchboard at (202) 224-3121.

■ Commerce

Business Wins Trade Vote On China

The U.S. Chamber of Commerce scored an important trade victory on June 27 when the House defeated an attempt to deny China's most-favored-nation trade status.

Lawmakers voted 286-141 to reject a resolution that would have rescinded President Clinton's May 31 decision to extend MFN status for China until July 1, 1997. China's MFN status had been set to expire July 1, 1996.

Rep. Doug Bereuter, R-Neb., discussed China's trade status during a meeting at the U.S. Chamber.

MFN status is routinely granted to most of the nations with which the U.S. trades. While the designation does not confer special trade privileges, without it a country's imports could be subject to U.S. tariff rates of more than 50 percent.

The resolution of denial of MFN for China was prompted by the country's human-rights abuses, its recent belligerence toward Taiwan, and other international incidents.

While the Chamber also is concerned about some of China's recent actions, it contends that denying or restricting the country's trade status would hurt the forces in China most sympathetic to political and trade reforms. Such sanctions also would hurt U.S. economic interests and put the United States at a substantial competitive disadvantage in relation to its major foreign-trade partners.

While the House rejected the move to deny MFN status, it approved a related measure the same day. By a 411-7 vote, the House approved a resolution calling on several of its committees to conduct hearings on China's trade and human-rights transgressions and to propose legislation that would specifically address those matters.

Meanwhile, the Chamber is now urging that MFN status for China be extended permanently.

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■ Bankruptcy Ahead

Help Urged For Medicare

The U.S. Chamber of Commerce is urging Congress to pass legislation to keep the nation's Medicare program solvent.

In June, the trustees of the Medicare Hospital Insurance Trust Fund reported that the fund could go broke as early as 2000, two years earlier than the trustees had estimated last year. (See the chart on this page.)

Medicare's hospital-insurance fund subsidizes hospital coverage for the elderly and the long-term disabled.

The trustees said the fund will run out of money unless revenues are raised or spending is cut. If a payroll-tax increase is chosen as the way to keep the hospital-insurance fund solvent, Medicare payroll taxes on workers' wages would have to be raised immediately by 4.52 percentage points, according to the trustees' report.

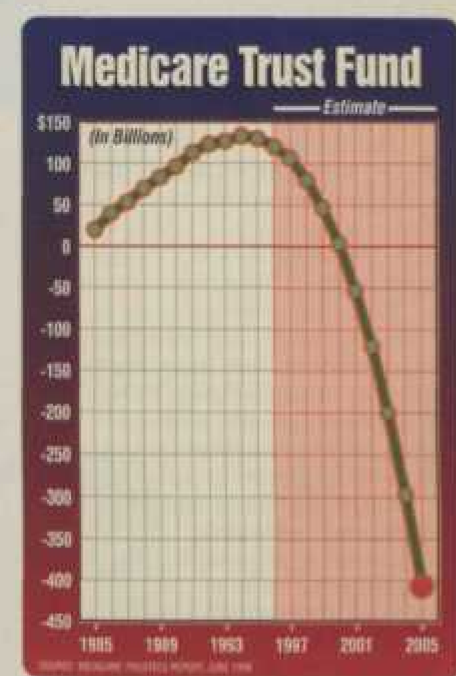
The Medicare payroll tax is currently 2.9 percent for employers and employees combined. The employer pays 1.45 percent, and the employee pays 1.45 percent. Adding 4.52 percent to the current rate would raise it to a 7.42 percent combined rate, or 3.71 percent for employer and employee alike.

The Chamber is urging Congress to save the Medicare system through reductions in the growth of spending for the program rather than through tax increases.

The organization is backing a plan by congressional Republicans that would bring about savings by introducing competition for Medicare patients among health-care providers.

The GOP proposal, known as the Medicare Preservation Act, would allow Medicare beneficiaries to pick from several health-plan options. They could set up tax-free medical savings accounts to pay for health care and to buy health policies to cover catastrophic costs, or they could receive medical treatment from "provider service organizations," made up of groups of doctors and hospitals; from providers in union or association health plans; or from traditional fee-for-service providers as they do currently under Medicare.

The Republicans' proposal is part of the recently approved House-Senate budget resolution. To be implemented, the proposal would have to be passed in a separate measure by the House and the Senate and then signed by President Clinton.



The rate of growth in Medicare spending would be slowed for a savings of $168 billion over six years. Annual spending per Medicare recipient, however, would increase from about $5,200 now to $7,000 by 2002 even as the number of Medicare recipients would rise.

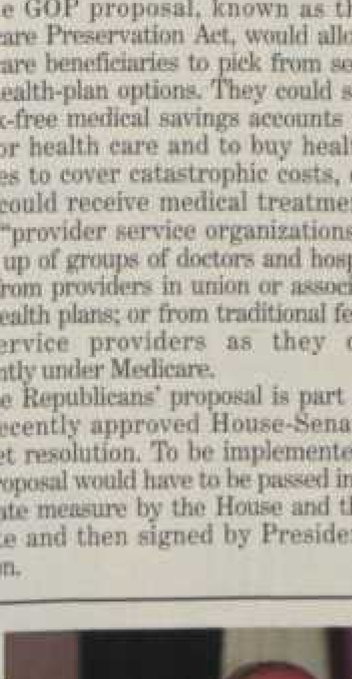
That spending increase would slow the program's projected growth to 6.4 percent annually over the next six years. Currently, the program is expected to grow at about 10 percent a year, more than three times the rate of inflation.

Says Neil Trautwein, the Chamber's manager of health-care policy: "America needs the kind of market-based reform supported by the Republicans to improve quality and choice in Medicare while attacking waste, fraud, and abuse in the system."

The Clinton administration has proposed $116 billion in Medicare savings, mostly through reductions in payments to health-care providers.

As part of its efforts to educate the public about the Medicare outlook, the Chamber recently launched a series of television ads in four U.S. cities—Erie, Pa.; Omaha, Neb.; Portland, Maine; and Sioux Falls, S.D. The ads will run in other areas of the country if they are received positively in the test cities. The ads are designed to counter false claims being made about reform efforts.

■ Agriculture



Agriculture Secretary Dan Glickman, left, and House Agriculture Committee Chairman Pat Roberts, R-Kan., discuss implementation of the new farm bill with the Chamber's Food and Agriculture Committee.

■ Economic Poll

Companies' Outlook Shifts Again

Business's confidence in the economy fell in June, according to the U.S. Chamber of Commerce's latest poll of its members.

The Business Confidence Index, which is based on the Chamber's bimonthly Business Ballot polls, dropped to 54.3 in June from 56.2 in April. It had been at 53.5 in February.

The widely reported index is based on responses to three economic-outlook questions asked in each Business Ballot poll. The ballot also asks questions about other timely issues, such as legislation pending in Congress. It is included in the polybag with *The Business Advocate* and *Nation's Business* every other month.

The shift in direction in the index was the latest in a series that have occurred with each bimonthly poll since August 1995, when it was 53.5. (See the chart.)

"The modest easing in business confidence from April to June," says Robert D. Barr, deputy chief economist for the Chamber, "reflects a rising expectation that growth in the economy will moderate in the second half of 1996. Higher interest rates and concern that growth in consumer spending won't continue at its current snappy pace probably prompted respondents to scale back their expectations."

In the most recent poll, 22.8 percent of the respondents said that they expected the economy to improve over the next six months. That was down from 23.5 percent in April.

The percentage of respondents who believed the economy would get worse, however, remained unchanged from April, with 25.3 percent expecting economic growth to subside over the next six months. Just under 60 percent expected no change in the economy.

Respondents remained optimistic about the outlook for their own firms, with 38.1 percent saying they expected sales to increase over the next six months. Only 18.2 percent said that they expected sales to decrease, while 43.7 percent expected no change. In April's poll, 44.2 percent expected sales to go up, 17.7 percent expected them to go down, and 38.1 percent did not foresee any change.

■ Budget

Business People Still Want Deficit Solution

Reps. Dan Miller, R-Fla., left, and Charles W. Stenholm, D-Texas, discussed congressional efforts to put the country on a balanced-budget course at a recent forum at the U.S. Chamber of Commerce.

Members of the U.S. Chamber of Commerce overwhelmingly want Congress and the president to agree to spending reductions in the 1997 federal budget that would put the country on track toward eliminating the deficit by 2002.

The Congressional Budget Office estimates that the fiscal 1996 budget deficit will be $144 billion. The accumulated federal debt at the end of fiscal 1996, which runs through September, will be $5.15 trillion, according to the CBO.

Chamber members expressed their views on the current deliberations on the 1997 budget in the June Business Ballot poll. Ninety-eight percent of the respondents said they back deficit elimination by 2002.

Meanwhile, in mid-June, the House and the Senate voted to approve a budget outline in the form of a resolution that calls for balancing the budget by 2002 through reductions in spending growth.

The outline calls for $702.5 billion in savings from reductions in projected spending growth over six years, and it contains $122.4 billion in tax cuts.

The budget resolution serves as a blueprint for congressional appropriations panels as they craft spending legislation for programs under their jurisdiction. Those proposals—in the form of 13 appropriations bills—require approval by both houses of Congress and the president.

A majority of respondents—68.4 percent—to the Chamber poll said lawmakers have not done a good job of communicating the need for balancing the government's books.

Nonetheless, 95.6 percent said the president should support efforts to reduce the growth of entitlement spending, including welfare, Medicare, and Medicaid programs.

Republican lawmakers have indicated that they plan to present a 1997 budget reconciliation bill that would overhaul entitlement programs. Budget reconciliation legislation is required each year to flesh out the details of the budget outline as they are reflected in the 13 appropriations bills.

GAIN UPDATE
GRASSROOTS ACTION INFORMATION NETWORK
U.S. Chamber of Commerce Federation

Legislation Would Modernize And Overhaul The FDA

Chamber Believes Measures Would Help Agency Keep Pace With Rapid Developments

The future role and direction of the U.S. Food and Drug Administration has emerged as a subject of major debate in Washington and among consumers and regulated businesses. And the U.S. Chamber of Commerce has entered the fray by supporting certain FDA-reform bills that have been introduced in Congress.

Those bills, which would modernize and overhaul the agency, are beginning to move through Congress.

One is a measure introduced by Sen. Nancy Kassebaum, R-Kan., and approved March 28 by the Senate Labor and Human Resources Committee, which Kassebaum chairs. Called the FDA Performance and Accountability Act, the bill (S. 1477) has bipartisan support in the Senate.

Meanwhile, the House Commerce Committee recently held hearings on a package of three food and drug bills—H.R. 3199, H.R. 3200, and H.R. 3201—which together contain the same reforms as Kassebaum's bill.

The House measures deal respectively with human drugs and biological products, such as bacteria used for beneficial purposes; animal medications and food; and medical devices. They were introduced respectively by Reps. Richard M. Burr, R-N.C., Scott Klug, R-Wis., and Joe Barton, R-Texas.

The Chamber generally supports the House and Senate proposals, which would "streamline FDA functions, introduce science-based assessments of the relative risk of a new food additive or drug, and help the agency do its job better," according to Stuart Hardy, manager of resources policy for the Chamber.

"FDA has safeguarded the food and medication supply with an outstanding record of consumer safety and protection that is the envy of the world," Hardy says. "Still, the agency has not undergone a major modernization in more than three decades, and one is overdue.

"Providing FDA with the best science and technology and giving it the resources to carry out its mission promptly and efficiently are the keys to assuring that the agency can keep pace with a growing and increasingly complex food and human-drug industry," Hardy says.

The FDA regulates nearly 25 percent of all consumer products, including foods, dietary supplements, human and animal drugs, medical devices, and cosmetics. Currently it has fewer than 1,000 field inspectors to accomplish its regulatory mission. The agency's additional resources include support from 19 FDA field laboratories and assistance from state and local food and health agencies.

In recent years, the FDA has come under increasing criticism for failing to process in a timely manner applications for new drugs and medical devices and petitions for new food additives. For example, it now takes about 15 years, 400,000 pages of applications, and approximately $359 million to move a new drug from its development in a laboratory to the consumer market, according to the General Accounting Office. This is far longer than the process in any other nation.

The Senate is expected to act before the House votes on FDA reform. The bill sponsored by Kassebaum will likely come up for a floor vote before Congress' August recess.

The legislation would allow patients suffering from serious illnesses to have access to "investigational" drugs or devices if there is no satisfactory alternative. Investigational drugs and devices are those undergoing clinical testing by the FDA. The proposal also would allow FDA-accredited laboratories to review product applications on behalf of the agency.

Additionally, the bill would put time limits on the FDA review and approval processes. "This legislation would enable patients

Continued on Page 10A

How You Can Join GAIN

The Grassroots Action Information Network—GAIN—enhances the ability of business people to influence government decisions that affect their enterprises. Through the network, U.S. Chamber specialists on legislative and regulatory issues provide activist business people with the timely and thorough information they need to urge their members of Congress to cast pro-enterprise votes.

For more information on how to become a member of this network, call (202) 463-5604.

GAIN UPDATE

Write Your Representative About Wage-Hike Vote

The U.S. Chamber of Commerce is asking its members to thank their representative if he or she voted against a proposal to raise the federal minimum wage and to hold their lawmaker accountable if he or she voted to raise the wage rate.

The Chamber maintained its stand against a minimum-wage hike as the issue heated up again this year, citing studies that show that increasing the wage rate results in lost jobs.

The House voted 266-162 on May 23 to raise the wage floor in two stages from its current $4.25 an hour. It would be increased to $4.75 upon the measure's enactment and to $5.15 on July 1, 1997.

The minimum-wage measure was subsequently attached to legislation that would make it clear that employers are not required to pay their workers for time spent commuting between home and a job site in an employer-provided vehicle. That bill was then passed by the House on a 281-144 vote.

After it was approved, the bill was coupled by the House parliamentarian—as required by the rule governing debate on the measures—with a small-business tax package and was sent to the Senate.

Write your lawmaker to express your appreciation or disappointment with his or her vote on the initial minimum-wage proposal. (See the listing below.) The address is U.S. House of Representatives, Washington, D.C. 20515.

VOTED AGAINST

ALABAMA
1 Callahan (R)
2 Everett (R)

ARIZONA
1 Salmon (R)
3 Stump (R)
4 Shadegg (R)
5 Kolbe (R)
6 Hayworth (R)

ARKANSAS
3 Hutchinson (R)
4 Dickey (R)

CALIFORNIA
2 Herger (R)
4 Doolittle (R)
10 Baker, Bill (R)
11 Pombo (R)
15 Campbell (R)
19 Radanovich (R)
21 Thomas (R)
22 Seastrand (R)
23 Gallegly (R)
25 McKeon (R)
27 Moorhead (R)
28 Dreier (R)
39 Royce (R)
41 Kim (R)
43 Calvert (R)
45 Rohrabacher (R)
46 Dornan (R)
47 Cox (R)
48 Packard (R)
51 Cunningham (R)
52 Hunter (R)

COLORADO
3 McInnis (R)
4 Allard (R)
5 Hefley (R)
6 Schaefer (R)

CONNECTICUT
5 Franks, Gary (R)

FLORIDA
1 Scarborough (R)
4 Fowler (R)
6 Stearns (R)
7 Mica (R)
8 McCollum (R)
13 Miller, Dan (R)
14 Goss (R)
15 Weldon, David (R)

GEORGIA
1 Kingston (R)
3 Collins, Michael (R)
4 Linder (R)
7 Barr (R)
8 Chambliss (R)
10 Norwood (R)

IDAHO
1 Chenoweth (R)
2 Crapo (R)

ILLINOIS
6 Hyde (R)
8 Crane (R)
10 Porter (R)
13 Fawell (R)
14 Hastert (R)
15 Ewing (R)
16 Manzullo (R)

INDIANA
2 McIntosh (R)
4 Souder (R)
6 Burton (R)
7 Myers (R)
8 Hostettler (R)

IOWA
2 Nussle (R)
5 Latham (R)

KANSAS
2 Brownback (R)
3 Meyers (R)
4 Tiahrt (R)

KENTUCKY
2 Lewis, Ron (R)
4 Bunning (R)

LOUISIANA
1 Livingston (R)
5 McCrery (R)
6 Baker, Richard (R)

MARYLAND
1 Gilchrest (R)
2 Ehrlich (R)
6 Bartlett (R)

MICHIGAN
2 Hoekstra (R)
3 Ehlers (R)
4 Camp (R)
7 Smith, Nick (R)
8 Chrysler (R)
11 Knollenberg (R)

MINNESOTA
1 Gutknecht (R)

MISSISSIPPI
1 Wicker (R)
3 Montgomery (D)
4 Parker (R)

MISSOURI
2 Talent (R)
7 Hancock (R)
8 Emerson (R)

NEBRASKA
2 Christensen (R)
3 Barrett, Bill (R)

NEVADA
2 Vucanovich (R)

NEW HAMPSHIRE
1 Zeliff (R)
2 Bass (R)

NEW JERSEY
3 Saxton (R)
11 Frelinghuysen (R)

NEW MEXICO
2 Skeen (R)

NEW YORK
27 Paxon (R)

NORTH CAROLINA
2 Funderburk (R)
3 Jones (R)
5 Burr (R)
6 Coble (R)
7 Rose (D)
9 Myrick (R)
10 Ballenger (R)
11 Taylor, Charles (R)

OHIO
1 Chabot (R)
2 Portman (R)
4 Oxley (R)
8 Boehner (R)
12 Kasich (R)
15 Pryce (R)

OKLAHOMA
1 Largent (R)
2 Coburn (R)
3 Brewster (D)
4 Watts (R)
5 Istook (R)
6 Lucas (R)

OREGON
2 Cooley (R)

PENNSYLVANIA
5 Clinger (R)
9 Shuster (R)
16 Walker (R)
17 Gekas (R)
19 Goodling (R)

SOUTH CAROLINA
1 Sanford (R)
2 Spence (R)
3 Graham (R)
4 Inglis (R)

TENNESSEE
1 Quillen (R)
3 Wamp (R)
7 Bryant, Ed (R)

TEXAS
3 Johnson, Sam (R)
4 Hall, Ralph (D)
6 Barton (R)
7 Archer (R)
8 Fields, Jack (R)
12 Geren (D)
13 Thornberry (R)
14 Laughlin (R)
17 Stenholm (D)
19 Combest (R)
21 Smith, Lamar (R)
22 DeLay (R)
23 Bonilla (R)
26 Armey (R)

UTAH
1 Hansen (R)
2 Greene (R)

VIRGINIA
1 Bateman (R)
6 Goodlatte (R)
7 Bliley (R)
10 Wolf (R)
11 Davis (R)

WASHINGTON
1 White (R)
4 Hastings, Richard (R)
5 Nethercutt (R)
8 Dunn (R)
9 Tate (R)

WISCONSIN
2 Klug (R)
6 Petri (R)
8 Roth (R)
9 Sensenbrenner (R)

WYOMING
Cubin (R)

VOTED FOR

ALABAMA
3 Browder (D)
4 Bevill (D)
5 Cramer (D)
6 Bachus (R)
7 Hilliard (D)

ALASKA
Young, Don (R)

ARIZONA
2 Pastor (D)

ARKANSAS
1 Lincoln (D)
2 Thornton (D)

CALIFORNIA
1 Riggs (R)
3 Fazio (D)
5 Matsui (D)
6 Woolsey (D)
7 Miller, George (D)
8 Pelosi (D)
9 Dellums (D)
12 Lantos (D)
13 Stark (D)
14 Eshoo (D)

16 Lofgren (D)
17 Farr (D)
18 Condit (D)
20 Dooley (D)
24 Beilenson (D)
26 Berman (D)
29 Waxman (D)
31 Martinez (D)
32 Dixon (D)
33 Roybal-Allard (D)
34 Torres (D)
35 Waters (D)
36 Harman (D)
37 Millender-McDonald (D)
40 Lewis, Jerry (R)
42 Brown, George (D)
44 Bono (R)
49 Bilbray (R)
50 Filner (D)

COLORADO
1 Schroeder (D)
2 Skaggs (D)

CONNECTICUT
1 Kennelly (D)
2 Gejdenson (D)
3 DeLauro (D)
4 Shays (R)
6 Johnson, Nancy (R)

DELAWARE
Castle (R)

FLORIDA
2 Peterson, Pete (D)
3 Brown, Corrine (D)
5 Thurman (D)
9 Bilirakis (R)
10 Young, Bill (R)
11 Gibbons (D)
12 Canady (R)
16 Foley (R)
17 Meek (D)
18 Ros-Lehtinen (R)
19 Johnston (D)
20 Deutsch (D)
21 Diaz-Balart (R)
22 Shaw (R)
23 Hastings, Alcee (D)

GEORGIA
2 Bishop (D)
5 Lewis, John (D)
9 Deal (R)
11 McKinney (D)

HAWAII
1 Abercrombie (D)
2 Mink (D)

ILLINOIS
1 Rush (D)
2 Jackson (D)
3 Lipinski (D)
4 Gutierrez (D)
5 Flanagan (R)
7 Collins, Cardiss (D)
9 Yates (D)
11 Weller (R)
12 Costello (D)
17 Evans (D)
18 LaHood (R)
19 Poshard (D)
20 Durbin (D)

INDIANA
1 Visclosky (D)
3 Roemer (D)
5 Buyer (R)
9 Hamilton (D)
10 Jacobs (D)

IOWA
1 Leach (R)
3 Lightfoot (R)
4 Ganske (R)

KANSAS
1 Roberts (R)

KENTUCKY
1 Whitfield (R)
5 Rogers (R)
6 Baesler (D)

LOUISIANA
2 Jefferson (D)
3 Tauzin (R)
4 Fields, Cleo (D)
7 Hayes (R)

MAINE
1 Longley (R)
2 Baldacci (D)

MARYLAND
3 Cardin (D)
4 Wynn (D)
5 Hoyer (D)
7 Cummings (D)
8 Morella (R)

MASSACHUSETTS
1 Olver (D)
2 Neal (D)
3 Blute (R)
4 Frank, Barney (D)
5 Meehan (D)
6 Torkildsen (R)
7 Markey (D)
8 Kennedy, Joseph (D)
9 Moakley (D)
10 Studds (D)

MICHIGAN
1 Stupak (D)
6 Upton (R)
9 Kildee (D)
10 Bonior (D)
12 Levin (D)
13 Rivers (D)
14 Conyers (D)
15 Collins, Barbara-Rose (D)
16 Dingell (D)

MINNESOTA
2 Minge (D)
3 Ramstad (R)
4 Vento (D)
5 Sabo (D)
6 Luther (D)
7 Peterson, Collin (D)
8 Oberstar (D)

MISSISSIPPI
2 Thompson (D)
5 Taylor, Gene (D)

MISSOURI
1 Clay (D)
3 Gephardt (D)
4 Skelton (D)
5 McCarthy (D)
6 Danner (D)
9 Volkmer (D)

MONTANA
Williams (D)

NEBRASKA
1 Bereuter (R)

NEVADA
1 Ensign (R)

NEW JERSEY
1 Andrews (D)
2 LoBiondo (R)
4 Smith, Christopher (R)
5 Roukema (R)
6 Pallone (D)
7 Franks, Bob (R)
8 Martini (R)
9 Torricelli (D)
10 Payne, Donald (D)
12 Zimmer (R)
13 Menendez (D)

NEW MEXICO
1 Schiff (R)
3 Richardson (D)

NEW YORK
1 Forbes (R)
2 Lazio (R)
3 King (R)
4 Frisa (R)
5 Ackerman (D)
6 Flake (D)
7 Manton (D)
8 Nadler (D)
9 Schumer (D)
10 Towns (D)
11 Owens (D)
12 Velazquez (D)
14 Maloney (D)
15 Rangel (D)
16 Serrano (D)
17 Engel (D)
18 Lowey (D)
19 Kelly (R)
20 Gilman (R)
21 McNulty (D)
22 Solomon (R)
23 Boehlert (R)
24 McHugh (R)
25 Walsh (R)
26 Hinchey (D)
28 Slaughter (D)
29 LaFalce (D)
30 Quinn (R)
31 Houghton (R)

NORTH CAROLINA
1 Clayton (D)
4 Heineman (R)
8 Hefner (D)
12 Watt (D)

NORTH DAKOTA
Pomeroy (D)

OHIO
3 Hall, Tony (D)
5 Gillmor (R)
6 Cremeans (R)
7 Hobson (R)
9 Kaptur (D)
10 Hoke (R)
11 Stokes (D)
13 Brown, Sherrod (D)
14 Sawyer (D)
16 Regula (R)
17 Traficant (D)
18 Ney (R)
19 LaTourette (R)

OREGON
1 Furse (D)
4 DeFazio (D)
5 Bunn (R)

PENNSYLVANIA
1 Foglietta (D)
2 Fattah (D)
3 Borski (D)
4 Klink (D)
6 Holden (D)
7 Weldon, Curt (R)
8 Greenwood (R)
10 McDade (R)
11 Kanjorski (D)
12 Murtha (D)
13 Fox (R)
14 Coyne (D)
15 McHale (D)
18 Doyle (D)
20 Mascara (D)
21 English (R)

RHODE ISLAND
1 Kennedy, Patrick (D)
2 Reed (D)

SOUTH CAROLINA
5 Spratt (D)
6 Clyburn (D)

SOUTH DAKOTA
Johnson, Tim (D)

TENNESSEE
2 Duncan (R)
4 Hilleary (R)
5 Clement (D)
6 Gordon (D)
8 Tanner (D)
9 Ford (D)

TEXAS
1 Chapman (D)
2 Wilson (D)
5 Bryant, John (D)
9 Stockman (R)
10 Doggett (D)
11 Edwards (D)
15 de la Garza (D)
16 Coleman (D)
18 Jackson-Lee (D)
20 Gonzalez (D)
24 Frost (D)
25 Bentsen (D)
27 Ortiz (D)
28 Tejeda (D)
29 Green (D)
30 Johnson, Eddie (D)

UTAH
3 Orton (D)

VERMONT
Sanders (I)

VIRGINIA
2 Pickett (D)
3 Scott (D)
4 Sisisky (D)
5 Payne, Lewis (D)
8 Moran (D)
9 Boucher (D)

WASHINGTON
2 Metcalf (R)
3 Smith, Linda (R)
6 Dicks (D)
7 McDermott (D)

WEST VIRGINIA
1 Mollohan (D)
2 Wise (D)
3 Rahall (D)

WISCONSIN
1 Neumann (R)
3 Gunderson (R)
4 Kleczka (D)
5 Barrett, Thomas (D)
7 Obey (D)

DID NOT VOTE

CALIFORNIA
30 Becerra (D)
38 Horn (R)

GEORGIA
6 Gingrich (R) (The speaker customarily does not vote.)

KENTUCKY
3 Ward (D)

MICHIGAN
5 Barcia (D)

NEW YORK
13 Molinari (R)

OREGON
3 (Vacant at the time of vote.)

Continued from Page 7A

to obtain new treatments faster and at lower cost than at present, without compromising patient safety," says Hardy.

During Senate consideration of Kassebaum's bill, it is expected that amendments will be offered to modernize the so-called Delaney Clause of the Federal Food, Drug and Cosmetic Act and to establish uniform, nationwide standards for food, cosmetics, and prescription drugs.

The Delaney Clause, adopted in 1958, bars any trace amount of a food additive or residue of a pesticide in processed food if the substance has been found to cause cancer in laboratory animals. But most scientists agree that this "zero-risk" standard is obsolete because of advances in quantitative laboratory analyses in the decades since the measure was enacted.

One of the amendments expected to be proposed to the FDA bill would substitute a "negligible" or "insignificant" risk standard for the current zero-risk standard. The change would allow the use of chemicals that pose insignificant cancer risk but offer huge health benefits in other areas, such as protecting food from harmful bacteria.

The other amendment would require identical safety standards at the federal and state levels for foods, cosmetics, and prescription drugs. A similar provision for over-the-counter drugs is already included in the bill.

"With the improvements contained in the legislation," Hardy says, "the Food and Drug Administration would have the tools and guidance it needs to successfully continue the crucial task of safeguarding consumer health into the 21st century."

For more information on the FDA-related bills, call Stuart Hardy at (202) 463-5760.

House Bill Would Increase Accountability Of Congress And Agencies On Regulations

If you're like many other business people, you probably think the federal government in Washington should be more sensitive to the burdens it imposes on companies when it passes regulations. While some measures requiring federal agencies to become more mindful of those burdens and their costs have been enacted during the current Congress, the U.S. Chamber of Commerce is pushing for further laws to heighten the government's sensitivity about regulations.

The Chamber is backing legislation introduced in the House that would impose more accountability on Congress and the regulatory agencies that write and enforce rules and would open the regulatory process to greater public scrutiny. The bill was introduced in mid-April by Reps. Gary Condit, D-Calif., and Lamar S. Smith, R-Texas.

Known as the Regulatory Accountability Act, the measure would strengthen the business-backed Unfunded Mandates Reform Act of 1995, which requires that the impact of major regulations on the private sector be measured and made public. Major regulations are defined in the law as those costing businesses collectively more than $100 million to implement.

The bill would require Congress to recognize and quantify the costs imposed on businesses as a result of federal regulations. The Congressional Budget Office would determine the costs.

The legislation also would limit the amount of money that federal agencies could require businesses to spend in complying with those rules. The amount would be determined by Congress. The Unfunded Mandates Reform Act simply requires that private-sector-mandate costs be quantified and made public, though it caps the dollar amount of mandates that can be imposed on state and local governments.

Under the bill proposed by Condit and Smith, Congress would have to write into any legislation that would impose a mandate on the private sector the estimated costs for complying with the requirement.

If Congress failed to include compliance-cost estimates for a mandate, any lawmaker could prevent further consideration of the legislation until the estimates were completed. The lawmaker would do this by raising a "point of order"—a parliamentary maneuver that ends debate on a bill.

Rule-making agencies would be required to draft regulations that do not exceed the compliance costs specified for each mandate. If an agency were unable to draft a regulation within the specified limits, it would be required to go back to Congress and make a case for a higher compliance-cost estimate. For the regulation to advance, lawmakers would have to vote to raise the estimate.

Finally, the accountability bill would allow the public to comment on whether draft rules could be implemented within the compliance costs specified. Only after all those steps were taken could a regulation become final and enforceable.

"Congress and federal agencies have not been called to answer for the consequences of their actions, and we now have a federal regulatory machine that requires over $600 billion a year from American individuals and businesses," says Jody Olmer, the Chamber's director of domestic policy.

"Nothing in the Smith-Condit legislation would prevent reaching the societal goals that many regulations were meant to address—clean water and air or safe working conditions, for example," she says. "It simply would require Congress and federal regulators to be honest about the costs of rules to those who will foot the bill.

"This issue is about good government, jobs, and competitiveness," adds Olmer. "With sound information about the cost of regulations, limited resources can be allocated where the needs are the greatest."

The timing for action on the Smith-Condit bill is uncertain, according to the sponsors of the measure, and no similar bill has been introduced in the Senate. The Chamber is working to educate its business members, as well as lawmakers and the public, about the bill and to encourage support for it.

You can help generate support in the House by writing or calling your representative and urging him or her to co-sponsor the proposed Smith-Condit Regulatory Accountability Act. The address is U.S. House of Representatives, Washington, D.C. 20515. To call, dial the Capitol switchboard at (202) 225-3121.

■ Constitutional Amendment

Balanced-Budget Move Fails

A business-backed resolution calling for a balanced-budget amendment to the Constitution fell two votes short of approval in the Senate in early June.

The U.S. Chamber of Commerce, which strongly supports a balanced-budget amendment, is asking its members to thank senators who voted for the resolution and to express their disappointment to those who voted against it.

The June 6 vote was 64-35 in favor of the resolution, but constitutional amendments require approval by two-thirds of the members present and voting in each house of Congress. With one senator absent, proponents needed 66 votes in favor of the measure to pass it.

The House approved the resolution Jan. 26, 1995, by a vote of 300-132; 290 votes in favor were needed for approval.

If the Senate had approved the resolution, the amendment still would have required ratification by 38 of the 50 states.

A balanced-budget amendment to the Constitution is expected to be introduced again in the next Congress.

The resolution considered June 6 called for a federal budget in which, by 2002 or two years after the amendment's ratification by the states, spending would not exceed revenues. The amendment would take effect on the later of the two dates.

Dole pushed for passage.

The measure also called for a three-fifths vote of both the House and the Senate for the balanced-budget requirement to be waived. It would have required Congress to grant a waiver to allow spending to exceed revenues or to approve an increase in the amount of money the government could borrow to pay its liabilities.

The June 6 vote marked the second time in just over a year that the Senate failed to approve a balanced-budget resolution. The Senate fell one vote short of passage on March 2, 1995. In the 1995 vote, then-Senate Majority Leader Bob Dole, R-Kan., voted in favor of the resolution but changed his vote to "no" in a parliamentary move that allowed him to bring the measure up for reconsideration, which was one of his last priorities before he resigned from the Senate June 11.

Among the senators listed below who voted against the balanced-budget resolution on June 6, those who voted for it in a 1994 vote are noted with one asterisk; the lawmaker who voted for the resolution in 1995 is noted with two asterisks.

VOTED FOR

ALABAMA
Heflin (D)
Shelby (R)

ALASKA
Murkowski (R)
Stevens (R)

ARIZONA
Kyl (R)
McCain (R)

COLORADO
Brown (R)
Campbell (R)

DELAWARE
Biden (D)
Roth (R)

FLORIDA
Graham (D)
Mack (R)

GEORGIA
Coverdell (R)
Nunn (D)

IDAHO
Craig (R)
Kempthorne (R)

ILLINOIS
Moseley-Braun (D)
Simon (D)

INDIANA
Coats (R)
Lugar (R)

IOWA
Grassley (R)
Harkin (D)

KANSAS
Dole (R)
Kassebaum (R)

KENTUCKY
McConnell (R)

LOUISIANA
Breaux (D)

MAINE
Cohen (R)
Snowe (R)

MICHIGAN
Abraham (R)

MINNESOTA
Grams (R)

MISSISSIPPI
Cochran (R)
Lott (R)

MISSOURI
Ashcroft (R)
Bond (R)

MONTANA
Baucus (D)
Burns (R)

NEVADA
Bryan (D)

NEW HAMPSHIRE
Gregg (R)
Smith (R)

NEW MEXICO
Domenici (R)

NEW YORK
D'Amato (R)

NORTH CAROLINA
Faircloth (R)
Helms (R)

OHIO
DeWine (R)

OKLAHOMA
Inhofe (R)
Nickles (R)

PENNSYLVANIA
Santorum (R)
Specter (R)

RHODE ISLAND
Chafee (R)

SOUTH CAROLINA
Thurmond (R)

SOUTH DAKOTA
Pressler (R)

TENNESSEE
Frist (R)
Thompson (R)

TEXAS
Gramm (R)
Hutchison (R)

UTAH
Bennett (R)
Hatch (R)

VERMONT
Jeffords (R)

VIRGINIA
Robb (D)
Warner (R)

WASHINGTON
Gorton (R)

WISCONSIN
Kohl (D)

WYOMING
Simpson (R)
Thomas (R)

VOTED AGAINST

ARKANSAS
Bumpers (D)
Pryor (D)

CALIFORNIA
Boxer (D)
Feinstein (D) *

CONNECTICUT
Dodd (D)
Lieberman (D)

HAWAII
Akaka (D)
Inouye (D)

KENTUCKY
Ford (D) *

LOUISIANA
Johnston (D)

MARYLAND
Mikulski (D)
Sarbanes (D)

MASSACHUSETTS
Kennedy (D)
Kerry (D)

MICHIGAN
Levin (D)

MINNESOTA
Wellstone (D)

NEBRASKA
Exon (D) **
Kerrey (D)

NEVADA
Reid (D)

NEW JERSEY
Bradley (D)
Lautenberg (D)

NEW MEXICO
Bingaman (D) *

NEW YORK
Moynihan (D)

NORTH DAKOTA
Conrad (D)
Dorgan (D) *

OHIO
Glenn (D)

OREGON
Hatfield (R)
Wyden (D)

SOUTH CAROLINA
Hollings (D) *

SOUTH DAKOTA
Daschle (D) *

VERMONT
Leahy (D)

WASHINGTON
Murray (D)

WEST VIRGINIA
Byrd (D)
Rockefeller (D)

WISCONSIN
Feingold (D)

DID NOT VOTE

RHODE ISLAND
Pell (D) ***

*** Voted in 1995 against the resolution.

■ NCLC

Business Wins High-Court Cases

The National Chamber Litigation Center, the public-policy law firm of the U.S. Chamber of Commerce, recently won two more victories for business before the U.S. Supreme Court.

The victories involved multiple-employer contract bargaining and government contracts.

In *Antony Brown vs. Pro Football, Inc.*, the high court sided with the Chamber's legal center in resolving a conflict between labor and antitrust laws. It ruled that unionized companies participating in multiple-employer bargaining are not subject to antitrust violations for unilaterally imposing new contract terms on workers after an impasse has been reached in collective bargaining.

Recent cases won by the U.S. Chamber's legal center involved multi-employer bargaining and government contracts.

The court's June 20 ruling upheld an identical decision reached last year by the U.S. Court of Appeals for the District of Columbia Circuit. The Chamber's legal center filed a friend-of-the-court brief at the Supreme Court level in the case.

"[The] decision ensures that America's small businesses will not be sued under antitrust laws when they band together to bargain with big unions," says Robin Conrad, the NCLC's vice president.

Construction companies, retail firms, and businesses in the transportation and service industries, many of which are involved in this type of bargaining, will be among the firms that benefit from this ruling, Conrad says.

In the second business-related decision, the Supreme Court agreed with the NCLC in ruling that the federal government must honor the terms of contracts into which it enters.

The case, *U.S. vs. Winstar*, stemmed from a government practice in the early 1980s of encouraging healthy savings and loan institutions to buy failing thrifts by allowing the healthy ones to carry millions of dollars of goodwill as assets on their books.

Congress invalidated the use of goodwill in passing a 1989 savings and loan cleanup bill. As a result, once-healthy institutions were suddenly facing failure or were forced to sell assets, which hurt their earnings.

The savings and loans sued the government for breach of contract.

The NCLC filed briefs at the Supreme Court and lower court levels. It argued—and the high court agreed in its July 1 ruling—that the federal government must be liable for damages when it passes a statute that breaches a contract.

"The court declared that 'If the government breaches a contract, it must pay.' It's as simple—and fair—as that," says Stephen A. Bokat, executive vice president of the NCLC.

■ Counterattack

Your Help Is Needed

A move by business to raise funds to counter attacks by labor unions on pro-business members of Congress has prompted a strong initial response.

"We are encouraged by the number of business people expressing a willingness to get involved in this campaign," says Bruce Josten, the U.S. Chamber of Commerce's senior vice president for membership policy. "But the ultimate success of our effort will require the full support of the American business community."

The Chamber is a member of the group, known as The Coalition, that is organizing the counterattack. The request for contributions was published in the July issue of *The Business Advocate*.

The Coalition is working to counter a $35 million campaign by the AFL-CIO against more than 70 pro-business lawmakers. The labor organization has been running misleading advertisements about those legislators' voting records in their districts.

To contribute to The Coalition, call toll-free 1-888-762-3443 (in Washington, D.C., dial 822-2477). Or send a check made payable to The Coalition, c/o Roy Fletcher, 1615 H Street, N.W., Washington, D.C. 20062-2000.

For more information about The Coalition, call the Chamber's office of congressional affairs at (202) 463-5600.

■ Bill Of Rights

David Voight, director of the U.S. Chamber's Small Business Center, voices the business federation's support for the Small Business Bill of Rights sponsored by Rep. Dick Chrysler, R-Mich., left, at a recent news conference on Capitol Hill. Among the co-sponsors speaking in favor of the bill, which sets out 10 policies they say Congress should pursue to help small firms, were Reps. Sue W. Kelly and Michael Forbes, both Republicans from New York.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■ 1996 Elections

Candidates At Chamber

At left, Ed Teague, center, who is running for the House seat being vacated by Rep. Gerry E. Studds, D-Mass., talks with Chamber Vice President Lonnie Taylor and Leslie Pryor of the National Association of Wholesaler-Distributors. Below, Rep. Sam Brownback, R-Kan., right, talks with Brett Roberts, center, and Louis Pellegrino of the National Roofing Contractors Association.

Above, Reps. Jack Metcalf, center, and George Nethercutt, right, both Washington state Republicans, listen to the concerns of Galen Reser of PepsiCo at a candidate "meet and greet" session at the Chamber. At right, Rep. Michael Flanagan, R-Ill., is among the 1996 congressional candidates invited to the Chamber to listen to the concerns of business executives.

Reps. Philip S. English, R-Pa., left, and Bill Martini, R-N.J., who are running for re-election to the U.S. House, discuss their views on business issues at the Chamber.

■ List Grows

Chamber Adds 38 Endorsements

The U.S. Chamber of Commerce has endorsed an additional 38 candidates for congressional seats in the Nov. 5 elections.

The business federation's board of directors voted June 27 to back 10 candidates for the U.S. Senate and 28 for the U.S. House who are running as challengers to incumbents or for open seats.

The Chamber earlier had endorsed 243 candidates. Among them are 13 incumbent U.S. senators and 217 U.S. representatives whom the Chamber cited as "friends of business" plus 13 candidates running for the House either as challengers to incumbents or for open seats.

The Chamber expects to endorse other candidates in congressional races as Election Day approaches. Following is the list of newly endorsed candidates. For more information, call Doug Loon, director of congressional affairs, at (202) 463-5600.

ENDORSED FOR U.S. SENATE

OPEN SEATS

ARKANSAS
Rep. Tim Hutchinson (R)

ILLINOIS
Al Salvi (R)

KANSAS
Rep. Pat Roberts (R)

MAINE
Susan Collins (R)

NEBRASKA
Chuck Hagel (R)

NEW JERSEY
Rep. Dick Zimmer (R)

OREGON
Gordon Smith (R)

CHALLENGERS

IOWA
Rep. Jim Lightfoot (R)

MASSACHUSETTS
William Weld* (R)

MONTANA
Dennis Rehberg (R)

ENDORSED FOR U.S. HOUSE

OPEN SEATS

ALABAMA
4 Bob Aderholt (R)

ARKANSAS
1 Warren Dupwe (R)
2 Bud Cummins (R)

INDIANA
7 Ed Pease (R)
10 Virginia Blankenbaker (R)

MONTANA
Rick Hill (R)

NEW JERSEY
9 Kathleen Donovan (R)
12 Mike Pappas (R)

NORTH CAROLINA
7 Bill Caster (R)

PENNSYLVANIA
5 John Peterson (R)
16 Joe Pitts (R)

SOUTH DAKOTA
John Thune (R)

TEXAS
2 Brian Babin (R)
14 Ron Paul (R)

CHALLENGERS

CALIFORNIA
3 Tim LeFever (R)
17 Jess Brown (R)
42 Linda Wilde (R)

INDIANA
9 Jean Leising (R)

KENTUCKY
3 Anne Northup (R)

MICHIGAN
9 Pat Nowak (R)
13 Joseph Fitzsimmons (R)

NORTH CAROLINA
8 Curtis Blackwood (R)

NORTH DAKOTA
Kevin Cramer (R)

OREGON
1 Bill Witt (R)

PENNSYLVANIA
6 Christian Leinbach (R)

SOUTH CAROLINA
5 Larry Bigham (R)

TEXAS
24 Ed Harrison (R)
25 Brent Perry (R)

* Weld is the governor of Massachusetts.

■ Business Espionage

Care Urged In Writing Bill To Combat Spying

While the dialogue was less intriguing than that of a Tom Clancy novel, the subject—economic espionage—might have come from the pages of his books.

Protecting proprietary business information is a growing concern among companies, a witness for the U.S. Chamber of Commerce told the House Judiciary Subcommittee on Crime at a recent hearing on proposals to address the problem.

But Congress should be careful not to produce legislation that might have unintended consequences, said Thomas W. Brunner, a partner with the Washington, D.C., law firm of Wiley, Rein & Fielding, who testified before the panel on behalf of the Chamber.

Various estimates put the annual cost to U.S. businesses of economic espionage in the tens of billions of dollars. Economic espionage includes the stealing of trade secrets, manufacturing processes, and company documents.

Bills being drafted by the House and the Senate would make it a federal crime to steal certain proprietary economic information, such as trade secrets.

"The Chamber," Brunner said, "believes that the Congress faces a challenging task in formulating legislation that is simultaneously effective in attacking the identified abuses and sufficiently precise and careful to avoid unintended adverse effects."

The business federation urged lawmakers during its May 9 testimony to consider the following points when writing bills to penalize economic espionage:

■ A civil remedy for theft of proprietary information, in addition to criminal penalties, should be included in legislation.

■ The legislation should encompass domestic and foreign acts of economic espionage.

■ The scope of conduct defined as criminal should be narrower than the scope of conduct subject to civil actions.

The Chamber also asked legislators to be careful in considering the definitions and types of conduct that could be subject to criminal and civil actions. "Proprietary economic information," the Chamber pointed out, "could arguably apply to the general expertise and job knowledge of an executive."

Measures to discourage economic espionage also would have to be reconciled with existing international agreements and doctrines, said Brunner. "The Chamber unequivocally does not want to see economic-espionage legislation become an unintended barrier to legitimate foreign investment and international trade," Brunner said.

U.S. Chamber witness Thomas W. Brunner urged a House panel on crime to be careful to avoid unintended consequences.

■ Political Action

Chamber Offers '96 Election Reminders

Business people are being asked by the U.S. Chamber of Commerce to encourage their employees to make certain they are registered to vote in the Nov. 5 elections. Employers are also being urged to become involved in the political process.

At stake this year at the federal level will be the White House, 34 Senate seats, and the 435 seats in the House.

As part of its get-out-the-vote campaign, titled "Register, Vote, Make a Difference for Business," the Chamber is providing its members with envelope stuffers and camera-ready artwork to help them remind employees to register and to vote. The materials are available to U.S. Chamber members at cost plus shipping and handling.

They can be ordered by calling 1-800-638-6582 between 9 a.m. and 4:30 p.m. Eastern time Monday through Friday. In Maryland, call 1-800-352-1450.

This year's elections are particularly important because gains in the number of pro-business lawmakers that were achieved in the 1994 elections are at stake. Many of these legislators are being targeted for defeat by the AFL-CIO and other groups.

For a complete listing of pro-business candidates endorsed by the U.S. Chamber, watch for the October issue of *The Business Advocate*. The Chamber's endorsement process is still under way in some races. Candidates endorsed as of early May were listed on Pages 8A and 9A in the July issue.

■ New Book

Small Firms' Election Role Detailed

A new book by U.S. Chamber of Commerce President Richard L. Lesher recounts the political involvement of small-business owners in the 1994 elections and urges more business involvement in the 1996 elections.

The book, *Meltdown on Main Street: Why Small Business Is Leading the Revolution Against Big Government* (Dutton, $29.95), details why small-business owners have increased their political involvement and why a growing number of them are running for Congress.

The book is available in bookstores nationwide and can be ordered from the publisher by calling 1-800-253-6476.

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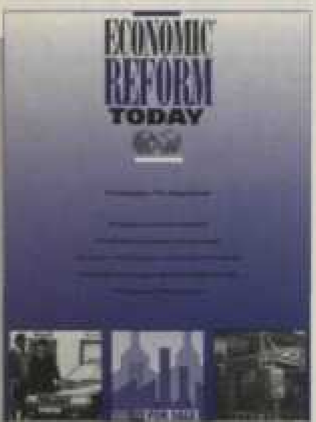

Economic Journal

The Center for International Private Enterprise (CIPE), an affiliate of the U.S. Chamber, produces a quarterly journal on economic policy in newly democratized and other developing countries.

The publication, *Economic Reform Today*, is distributed to top government policy-makers and business and opinion leaders worldwide; it can be ordered by calling (202) 463-5901.

Issues of the journal are also available on the Internet's World Wide Web. CIPE's Web address is *http://www.cipe.org/*

Business-Planning Seminars

Two financial-planning seminars for business owners will be presented this summer by the Edward Jones investment firm of St. Louis, *Nation's Business*, and the U.S. Chamber's Small Business Institute. The seminars can be viewed free at sites nationwide.

The first, on investment planning, is set for July 31, and the second, on estate planning, is scheduled for Aug. 14. Both programs will be sent by satellite to various locations and can be viewed from noon to 1:30 p.m. Central time.

Viewing locations will include selected Edward Jones offices nationwide as well as state and local chambers of commerce, businesses, and government and education institutions that are part of the satellite network of the Chamber's Quality Learning Services Department.

For information about becoming a host site or finding the location of the downlink site nearest you, or for more information on the programs, call 1-800-835-4730.

Export Resources

The U.S. Chamber publishes a quarterly newsletter on export assistance that is free to Chamber members. Produced by the International Division's Information Center, each newsletter focuses on trade in a specific region.

The spring 1996 issue, for example, looks at doing business in Latin America. Included is a list of resources related to the region and available from the International Division.

The Information Center also provides technical assistance to U.S. Chamber members exploring foreign markets.

To obtain a copy of the newsletter or for more information about the center, call (202) 463-5483.

Latin American Investment Survey

The results of the latest survey on the investment climate in Latin America are available from the U.S. Chamber's International Division.

The survey analyzes the state of foreign investment and trade liberalization in 20 Latin American countries. It was produced by the Association of American Chambers of Commerce in Latin America, an affiliate of the U.S. Chamber, and it was conducted by Chase Manhattan Bank.

For a copy of the results, call the International Division at (202) 463-5485. The cost is $40, plus $3 for shipping and handling.

Management Seminars

The fall series of management seminars sponsored by the U.S. Chamber will begin Sept. 17. The kickoff topic will be "Competing in the Digital Economy."

The presenter will be Don Tapscott, chairman of the Alliance for Converging Technologies, a research, education, and consulting company in Toronto.

Here are the dates, seminar leaders, and subjects of the other seminars in the series:


Dianna Booher

Oct. 1—Dianna Booher, an author and the CEO of Booher Consultants, a communication-training firm in Dallas; "Think on Your Feet: Communicate With Confidence!"

Oct. 8—Deepak Chopra, author of the best-selling *The Seven Spiritual Laws of Success*; "The Seven Spiritual Laws of Success as Applied to Business: A Practical Approach."

Oct. 15—Marc J. Wallace Jr., author and founding partner of the Center for Workforce Effectiveness, a workplace consulting firm in Northbrook, Ill.; "The Virtual Workplace."

Oct. 29—Hyrum W. Smith, chairman and CEO of Franklin Quest Co., a time-management consulting company in Salt Lake City; "Time Management: It Has Nothing To Do With Watching the Clock."

Nov. 12—Knight A. Kiplinger, co-editor of *The Kiplinger Washington Letter* and publisher of *Kiplinger's Personal Finance* magazine; "Kiplinger Forecast: What's Ahead for Business, the Economy and Your Personal Finances."

Nov. 19—Paul and Sarah Edwards, authors; "Finding Your Perfect Work: The New Career Guide to Making a Living and Creating a Life."

Dec. 3—William J. Morin, former chairman and CEO of Drake Beam Morin, Inc., an outplacement/job-transition firm in New York; "Career Alignment: Matching Personal and Organizational Goals."

Each seminar will air from 1 to 3 p.m. Eastern time. For information on the site nearest you or to host a downlink site, call the Chamber's Quality Learning Services Department at 1-800-835-4730 or (202) 463-5940. A catalog with more details on the series is available free by calling the same phone numbers.

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EMPLOYERS

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- Low fees[1] and moderate administrative requirements

CONTRIBUTIONS

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CONTRIBUTIONS

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- Investment options include mutual funds and individual securities

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EMPLOYERS

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- Earnings grow tax-deferred
- Vesting is immediate for all contributions
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[2] For self-employed individuals, compensation means earned income. Maximum compensation on which contributions can be based is currently $150,000.